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SUPREME COURT, U.S.

No. 06-484

IN THE

Supreme Court of the United States

TELLABS, INCORPORATED AND RICHARD C. NOTEBAERT,
Petitioners,

v.

MAKOR ISSUES & RIGHTS, LTD., ET AL.,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit

JOINT APPENDIX

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TABLE OF CONTENTS

	Page
United States District Court , Northern District of Illinois, Relevant Docket Entries	1
United States Court of Appeals, Seventh Circuit, Relevant Docket Entries	9
Exhibit 1, Press Release, Tellabs, Tellabs Updates Guidance for First Quarter and Full Year (Mar. 7, 2001), in Appendix filed by Defendants of Materials Cited in the Memorandum in Support of Motion to Dismiss, *Johnson* v. *Tellabs, Inc.*, No. 02C 4356 (N.D. Ill. filed Jan. 17, 2003) ("Defendants Appendix")	15
Exhibit 16, Transcript, Tellabs Operations Inc. Investor Relations Teleconference (Mar. 7, 2001), in Defendants Appendix	18
Exhibit 17, Press Release, Tellabs, Tellabs Revises First-Quarter Guidance (Apr. 6, 2001), in Defendants Appendix	31
Exhibit 2, Transcript, Tellabs Operations Inc. Revised Guidance Teleconference Call (Apr. 6, 2001), in Defendants Appendix	33
Exhibit 18, Press Release, Tellabs, Tellabs Reports First-Quarter Earnings Results (Apr. 18, 2001), in Defendants Appendix	43
Exhibit 19, Transcript, Tellabs Operations Inc. First Quarter 2001 Teleconference (Apr. 18, 2001) in Defendants Appendix	50

Exhibit 3, Press Release, Tellabs, Tellabs Revises Second Quarter Guidance (June 19, 2001), in Defendants Appendix 74

Exhibit 4, Transcript, Tellabs Operations Inc. Revised Guidance Teleconference Call (June 19, 2001), in Defendants Appendix 77

Second Consolidated Amended Class Action Complaint, *Johnson* v. *Tellabs, Inc.*, No. 02C 4356 (N.D. Ill. filed July 11, 2003) 90

NOTICE

The following documents have been omitted in the printing of this Joint Appendix. They may be found in the Petitioners' Appendix to the 06-484 Petition For A Writ Of Certiorari at the following pages.

Makor Issues & Rights, Ltd. v. *Tellabs, Inc.*, No. 04-1687 (7th Cir. July 10, 2006) (order denying rehearing en banc and modifying opinion) 118a-119a

Makor Issues & Rights, Ltd. v. *Tellabs, Inc.*, 437 F.3d 588 (7th Cir. 2006) 1a-27a

Johnson v. *Tellabs, Inc.*, 303 F. Supp. 2d 941 (N.D. Ill. 2004) 28a-79a

Johnson v. *Tellabs, Inc.*, 262 F. Supp. 2d 937 (N.D. Ill. 2003) 80a-117a

UNITED STATED DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS

[Filed: 06/18/2002]

CIVIL DOCKET FOR CASE #: 1:02-cv-04356

THOMAS JOHNSON, individually and on behalf of all others similarly situated, MAKOR ISSUES & RIGHTS, LTD.
Plaintiffs,

v.

TELLABS, INC.
Defendant.

RELEVANT DOCKET ENTRIES

DATE	NO.	PROCEEDINGS
06/18/2002	1	COMPLAINT (Attachment(s); jury demand - Civil cover sheet - Appearance(s) of Steven G. Schulman, Marvin A. Miller, Samuel H. Rudman, Jennifer Winter Sprengel, Lori Ann Fanning, Nadeem Faruqi and Guri Ademi as attorney(s) for plaintiff (no summons(es) (Documents: (1-1 through 1-3)) (gcy) (Entered: 06/19/2002)
		* * * *
09/26/2002	34	MINUTE ORDER of 9/26/02 by Hon. Amy J. St. Eve : Makor Issues' motion to serve as lead plaintiff is granted. In addition, Makor Issues' motion to approve the selection of Millberg Weiss Bershad Hynes and Lerach LLP as lead counsel and Miller Faucher and Cafferty LLP as liaison counsel is also granted. Plaintiffs are to file their amended

DATE	NO.	PROCEEDINGS
		consolidated complaint by 11/12/02. Entered Memorandum Opinion and Order. Mailed notice (yp) (Entered: 09/27/2002)
		* * * *
12/03/2002	40	CONSOLIDATED AMENDED CLASS ACTION COMPLAINT [1-1] by plaintiff; jury demand terminating plaintiff Makor Issues &, unknown John Gambino, unknown Manuel Bordelove, unknown Frederick Haddad, unknown Leo Nittskoff, unknown Shelomoh Sameyah, unknown Sabihch Sameyah, unknown Philip Schriger, unknown Teddy Wallach; adding John Vaughn, Robert W Pullen, Joan E Ryan, Brian Jackman, J Thomas Gruenwald, John C Kohler, William F Souders, Catherine Kozik (Attachments); Notice. (jmp) (Entered: 12/05/2002)
		* * * *
01/17/2003	47	MOTION by defendants Tellabs Inc, Michael J Birck, Richard C Notebaert, John Vaughn, Robert W Pullen, Joan E Ryan, Brian Jackman, J Thomas Gruenwald, John C Kohler, William F Souders, Catherine Kozik to dismiss complaint ; Notice of motion; Memorandum in Support (eav) (Entered: 01/23/2003)
		* * * *
01/17/2003	49	APPENDIX filed by defendants Tellabs Inc, Michael J Birck, Richard C Notebaert, John Vaughn, Robert W Pullen, Joan E Ryan, Brian Jackman, J Thomas Gruenwald, John

DATE	NO.	PROCEEDINGS
		C Kohler, William F Souders, Catherine Kozik of materials cited in the memorandum in support of motion to dismiss [47-1] (eav) (Entered: 01/23/2003)
		* * * *
03/14/2003	51	MEMORANDUM by plaintiff in opposition to defendants' motion to dismiss the consolidated amended class action complaint [47-1] (Attachments); Notice. (ntf) (Entered: 03/17/2003)
		* * * *
04/18/2003	57	REPLY memorandum by defendants in support of defendants' motion to dismiss complaint [47-1] (Attachment). (ntf) (Entered: 04/22/2003)
		* * * *
05/19/2003	60	MINUTE ORDER of 5/19/03 by Hon. Amy J. St. Eve : Defendants' motion to dismiss R. [47-1] is granted without prejudice. Plaintiffs have until 6/27/03 to file an amended complaint consistent with the court's order. Entered Memorandum Opinion and Order. Mailed notice by judge's staff (eav) (Entered: 05/20/2003)
		* * * *
07/11/2003	63	SECOND CONSOLIDATED AMENDED CLASS ACTION COMPLAINT by plaintiff; jury demand terminating defendants Catherine Kozik, William F Souders, John C Kohler, J Thomas Gruenwald, Brian Jackman, Joan E Ryan, Robert W Pullen,

DATE	NO.	PROCEEDINGS
		Richard C Notebaert, Michael J Birck; Notice. (aga) Modified on 07/18/2003 (Entered: 07/14/2003)
		* * * *
08/27/2003	70	MOTION by defendants Tellabs Inc, Michael J. Birck, Brian Jackman, John C. Kohler, Richard C. Notebaert, Richard C. Notebaert, Robert W. Pullen, Joan E. Ryan to dismiss the second consolidated amended class action complaint ; Notice (hp) (Entered: 08/29/2003)
		* * * *
08/27/2003	72	MEMORANDUM by defendants Tellabs Inc, Michael J. Birck, Richard C. Notebaert, Robert W. Pullen, Joan E. Ryan, John C. Kohler, Brian Jackman in support of their motion to dismiss second consolidated amended class action complaint [70-1] (hp) (Entered: 08/29/2003)
		* * * *
08/27/2003	74	APPENDIX filed by defendants Tellabs Inc, Michael J. Birck, Richard C. Notebaert, Robert W. Pullen, Joan E. Ryan, Brian Jackman, John C. Kohler of materials cited in the memorandum in support of their motion to dismiss the second consolidated amended class action complaint [70-1] (Attachments). (hp) (Entered: 08/29/2003)
		* * * *

DATE	NO.	PROCEEDINGS
10/03/2003	78	OPPOSITION by plaintiffs to defendants' motion to dismiss the second consolidated amended class action complaint [70-1]; Notice. (hp) (Entered: 10/06/2003)
		* * * *
11/07/2003	85	CORRECTED REPLY MEMORANDUM by defendants Tellabs Inc, Michael J. Birck, Richard C. Notebaert, Robert W. Pullen, Joan E. Ryan, Brian Jackman, John C. Kohler in support of their motion to dismiss second consolidated amended class action complaint [83-1] (Attachment). (hp) (Entered: 11/13/2003)
		* * * *
11/20/2003	87	MOTION by plaintiffs for leave to file supplemental authority in opposition to defendants' motions to dismiss (Attachment); Notice (hp) (Entered: 11/24/2003)
11/21/2003	88	MINUTE ORDER of 11/21/03 by Hon. Amy J. St. Eve : Plaintiff's motion for leave to file supplemental authority in opposition to defendants' motions to dismiss is granted. [87-1] Mailed notice (hp) (Entered: 11/24/2003)
		* * * *
12/08/2003	89	MOTION by plaintiffs for leave to file additional supplemental authority in opposition to defendants' motions to dismiss (Attachment); Notice (hp) (Entered: 12/11/2003)

DATE	NO.	PROCEEDINGS
12/11/2003	90	MINUTE ORDER of 12/11/03 by Hon. Amy J. St. Eve : Plaintiff's motion for leave to file additional supplemental authority in opposition to defendants' motions to dismiss is granted. [89-1] Mailed notice (hp) (Entered: 12/11/2003)
		* * * *
02/19/2004	92	MINUTE ORDER of 2/19/04 by Hon. Amy J. St. Eve : Defendants' motion to dismiss is granted. [70-1] Status hearing set for 02/25/04 is stricken. Any other pending dates are stricken. Any other pending motions are denied as moot. (Entered Memorandum Opinion and Order.) terminating case Mailed notice (hp) (Entered: 02/20/2004)
02/19/2004	93	ENTERED JUDGMENT (hp) (Entered: 02/20/2004)
03/04/2004	94	RULE 59(e) MOTION by defendants Michael J. Birck, Richard C. Notebaert, Robert W. Pullen, Joan E. Ryan, John C. Kohler, Brian Jackman to alter or amend judgment to clarify certain of the findings in the Court's February 19, 2004 memorandum opinion and order ; Notice (hp) (Entered: 03/10/2004)

DATE	NO.	PROCEEDINGS
03/09/2004	95	MINUTE ORDER of 3/9/04 by Hon. Amy J. St. Eve : Defendants' Rule 59(e) motion to alter [94-1] or amend judgment to clarify certain of the findings in the Court's February 19, 2004 memorandum opinion and order is granted. [94-2]. (See reverse of minute order.) Mailed notice (hp) (Entered: 03/10/2004)
03/18/2004	96	NOTICE OF APPEAL by lead plaintiff Makor Issues &, et al from motion minute order [95-1], judgment entered [93-1] order Memorandum Opinion and Order [92-1] order terminating case [92-2] motion minute order [92-3], Scheduling order Entered Memorandum Opinion and Order [60-1] motion minute order [60-2] (FEE PAID); Notice (mak) Modified on 03/19/2004 (Entered: 03/19/2004)
		* * * *
04/02/2004	99	TRANSCRIPT of proceedings for the following date(s): 03/09/04 and 02/11/04 appeal [96-1] Before Honorable Any J. St. Eve (2 Vols: 99-1 thru 99-2) (hp) (Entered: 04/05/2004)
		* * * *
07/19/2006	101	MANDATE of USCA dated 1/25/06 regarding notice of appeal, 96 ; USCA No. 04-1687 ; We affirm in part and reverse in part the judgment of the district court and remand for further proceedings consistent with this opinion. Assess costs against Tellabs. (mjc,) (Entered: 07/21/2006)

DATE	NO.	PROCEEDINGS
07/19/2006	102	OPINION from the USCA for the 7th Circuit; Argued 1/21/05; Decided 1/25/06 in USCA case no. 04-1687. (mjc,) (Entered: 07/21/2006)

* * * *

UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT

[Filed 3/19/04]

Court of Appeals Docket #: 04-1687

MAKOR ISSUES & RIGHTS, *et al.*,
Appellants,

v.

TELLABS INCORPORATED, *et al.*,
Appellees.

RELEVANT DOCKET ENTRIES

DATE	PROCEEDINGS
3/19/04	Private civil case docketed. [04-1687] [1719763-1] Transcript information sheet due 3/29/04. Appellant's brief due 4/28/04 for Makor Issues & Right, for Chris Broholm, for Richard LeBrun, for David Leehey, for Patricia Morris. Docketing Statement due 3/25/04. (hudk)
	* * * *
5/21/04	Filed 15c appellant's brief by Makor Issues & Right, Chris Broholm, Richard LeBrun, David Leehey, Patricia Morris. Disk filed. CORRECTED, per order of 7/29/04. [04-1687] [0-0] (cerr)
5/21/04	Filed 10c appendix by Appellant Makor Issues & Right, Appellant Chris Broholm, Appellant Richard LeBrun, Appellant David Leehey, Appellant Patricia Morris . [04-1687] [1740216-1] (cerr)
	* * * *

DATE	PROCEEDINGS
7/2/04	Filed 15c appellee's brief by Tellabs Incorporated, Michael J. Birck, Richard C. Notebaert, Robert W. Pullen, Joan E. Ryan. Electronically Transmitted. [04-1687] [0-0] (josh)
	* * * *
7/29/04	Filed 15c appellant's CORRECTED brief by Makor Issues & Right, Chris Broholm, Richard LeBrun, David Leehey, Patricia Morris, per order. Disk filed. [04-1687] [0-0] (matt)
8/2/04	Filed 15c appellant's reply brief by Makor Issues & Right, Chris Broholm, Richard LeBrun, David Leehey, Patricia Morris. Disk filed. [04-1687] [0-0] (matt)
	* * * *
11/3/04	Filed Appellant Makor Issues & Right, Appellant Chris Broholm, Appellant Richard LeBrun, Appellant David Leehey, Appellant Patricia Morris Citation of Additional Authority, per CR 28(e). [04-1687] [1793863-1] (tiff)
11/15/04	Filed Appellee Tellabs Incorporated, Appellee Michael J. Birck, Appellee Richard C. Notebaert, Appellee Robert W. Pullen, Appellee Joan E. Ryan Citation of Additional Authority, per CR 28(e). Dist. [04-1687] [1798534-1] (amyd)
	* * * *
1/19/05	Filed Appellee Tellabs Incorporated, Appellee Michael J. Birck, Appellee Richard C. Notebaert, Appellee Robert W. Pullen, Appellee Joan E. Ryan Citation of Additional Authority, per CR 28(e). Dist. [04-1687] [1818296-1] (nath)

DATE	PROCEEDINGS
1/21/05	Case heard and taken under advisement by panel: Circuit Judge Kenneth F. Ripple, Circuit Judge Diane P. Wood, Circuit Judge Diane S. Sykes. [04-1687] [1818518-1] (cal)
1/21/05	Case argued by David F. Graham for Appellee Joan E. Ryan, Appellee Robert W. Pullen, Appellee Richard C. Notebaert, Appellee Michael J. Birck, Appellee Tellabs Incorporated, Arthur R. Miller for Appellant Patricia Morris, Appellant David Leehey, Appellant Richard LeBrun, Appellant Chris Broholm, Appellant Makor Issues & Right . [04-1687] [1719763-1] (cal)
1/21/05	Filed Appellant Makor Issues & Right, Appellant Chris Broholm, Appellant Richard LeBrun, Appellant David Leehey, Appellant Patricia Morris Citation of Additional Authority, per CR 28(e). Dist. [04-1687] [1819138-1] (nath)
3/9/05	Filed Appellant Makor Issues & Right, Appellant Chris Broholm, Appellant Richard LeBrun, Appellant David Leehey, Appellant Patricia Morris Citation of Additional Authority, per CR 28(e). Dist. [04-1687] [1835717-1] (amyd)
3/16/05	Filed Appellee Tellabs Incorporated, Appellee Michael J. Birck, Appellee Richard C. Notebaert, Appellee Robert W. Pullen, Appellee Joan E. Ryan Citation of Additional Authority, per CR 28(e). Dist. [04-1687] [1839274-1] (nath)

DATE	PROCEEDINGS
1/25/06	Filed opinion of the court by Judge Wood. AFFIRMED in part, REVERSED in part and REMANDED for further proceedings consistent with this opinion. Circuit Judge Kenneth F. Ripple, Circuit Judge Diane P. Wood, Circuit Judge Diane S. Sykes. [04-1687] [1719763-1] (fern)
1/25/06	ORDER: Final judgment filed per opinion. With costs: Assess costs against Tellabs. [04-1687] [1947562-1] (fern)
2/8/06	Filed 30c Petition for Rehearing and Petition for Rehearing Enbanc and 30c of separate appendix by Appellee Tellabs Incorporated, Appellee Michael J. Birck, Appellee Richard C. Notebaert, Appellee Robert W. Pullen, Appellee Joan E. Ryan. Dist. [04-1687] [1953267-1] (fern)
	* * * *
5/3/06	Filed 30c (Opposition) Answer of Appellant Makor Issues & Right, Appellant Chris Broholm, Appellant Richard LeBrun, Appellant David Leehey, Appellant Patricia Morris to Petition for Rehearing and Petition for Rehearing Enbanc. Dist. [04-1687] [1982105-1] (amyd)
7/10/06	ORDER: Appellee Tellabs Incorporated, Appellee Michael J. Birck, Appellee Richard C. Notebaert, Appellee Robert W. Pullen, Appellee Joan E. Ryan Petition for Rehearing and Petition for Rehearing Enbanc is DENIED. [04-1687] [1953267-1] (Note: This order issued as part of an Order Modifying the Opinion) (amyd)

DATE	PROCEEDINGS
7/10/06	ORDER: The opinion of this Court issued on 1/25/06 is MODIFIED as follows: The first full paragraph on page 28 of the slip of the opinion is deleted and replaced with the following: The plaintiffs also pleaded a claim against Birck for insider trading. A private cause of action exists under 20A of the Securities Exchange Act against persons who purchase or sell a security "while in possession of material, nonpublic information." See 15 U.S.C. 78t-l(a). To create potential liability under 20A, the plaintiffs must prove an independent violation of "this chapter or the rules or regulations thereunder." Id. In other words, 20A claims are "derivative, requiring proof of a separate underlying violation of the Exchange Act.["] Advanta Corp., 180 F.3d at 541. At this point in the litigation, we have affirmed the dismissal of the underlying securities fraud claims pleaded directly against Birck. He still faces liability, but solely as a control person under 20(a). Whether 20(a) control-person liability standing alone can serve as the "separate underlying violation" required for 20A insider trading is an open question of law and raises an important issue of statutory interpretation that should not be decided in a vacuum. No party in this litigation has provided more than cursory briefing of this issue, and therefore we take no position on its resolution, leaving it for further factual and legal development during the course of the litigation. [04-1687] [1719763-1] (Note: This order also issued as a part of En Banc Petition for Rehearing Denial Order) (amyd)

DATE	PROCEEDINGS
7/18/06	MANDATE ISSUED AND ENTIRE RECORD RETURNED. (Contents returned: 4 vol. pleadings; 6 vol. loose pleadings; 2 vol. transcripts.) [04-1687] [1719763-1] (kare)
10/10/06	Filed notice from the Supreme Court of the filing of a Petition for Writ of Certiorari. Supreme Court Case No.: 06-484. [04-1687] [2033533-1] (hard)

News Release

FOR IMMEDIATE RELEASE
March 7, 2001

Tellabs updates guidance for first quarter and full year
Company closes acquisition of Future Networks

Lisle, Ill.—Tellabs announced today that it is lowering its revenue and earnings per share expectations for the first quarter 2001. Tellabs projects first quarter sales in the range of $830 million to $865 million, compared with prior guidance of $865 million to $890 million. The company projects earnings per share in the range of 35 cents to 38 cents, compared with prior guidance of 39 cents per share.

The new guidance stems from continuing below-trend growth in Tellabs' CABLESPAN® business. In addition, the company is unable to recognize revenue from shipments of its new TITAN® 6500 system in the first quarter as originally anticipated, but expects to recognize TITAN 6500 system revenues in the second quarter. Growth in Tellabs' core optical networking business remains strong.

Tellabs expects earnings per share for the year to be in the range of $2.13 to $2.17, compared with prior guidance of $2.17 per share. Tellabs expects revenues for the year to be in the range of $4.35 billion to $4.4 billion, compared with prior guidance of $4.4 billion.

"Given the strong acceptance of the new TITAN 6500, we continue to target 30 percent growth in revenue and earnings for the year," said Richard C. Notebaert, Tellabs president and CEO. "Demand for our new products is strong, and I am confident we have the right set of solutions to help our customers build tomorrow's converged networks."

Tellabs also announced it closed its acquisition of Future Networks, Inc., a leader in standards-based voice and cable modem technology. Tellabs paid approximately $133 million

in cash to acquire the stock of Future Networks, significantly lower than the previously announced purchase price. Approximately $35 million of the purchase price is tied to Future Networks achieving product development milestones. Goodwill related to the acquisition will dilute earnings by 4 cents in 2001 and 5 cents in 2002. Excluding goodwill, the Future Networks acquisition is expected to break even in 2001 and add to earnings in 2002.

Simultaneous Webcast and Teleconference—Tellabs will host a teleconference at 4:15 p.m. Central time on Wednesday, March 7, 2001 to discuss first-quarter guidance and expectations for 2001. The teleconference call-in number is 212-346-0102. Internet users can hear a simultaneous live webcast of the teleconference at www.tellabs.com. A taped replay of the call will be available for 48 hours, beginning at 6:15 p.m. Central time, at 800-633-8284. Outside of the United States, dial 858-812-6440. When prompted, enter the Tellabs reservation number: 18207400.

Tellabs designs, manufactures, markets and services optical networking, next-generation switching and broadband access solutions. The company also provides professional services that support its solutions. Tellabs' products and services are used worldwide by the providers of communications services. Its stock is listed on the NASDAQ stock market (TLAB).

Forward-Looking Statements—This news release contains forward-looking statements that involve risks and uncertainties. Actual results may differ from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, risks associated with introducing new products, entering new markets, availability of resources, competitive response, and economic changes impacting the telecommunications industry. The company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after today or to reflect the occurrence of

unanticipated events. For a more detailed description of the risk factors, please refer to the company's SEC filings.

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Tellabs Operations Inc.
Investor Relations Teleconference
March 7, 2001

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Tellabs Investor Relations conference call. At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question you will need to press the "1" followed by the "4" on your telephone. As a reminder, this conference is being recorded, Wednesday, March 7, 2001. I would now like to turn the conference over to Mr. John Springer, Director of Investor Relations for Tellabs. Please go ahead, sir.

John Springer: Thanks, Kelly. Good afternoon everyone. With me today is Tellabs' President and CEO, Dick Notebaert, Joan Ryan, Executive Vice President and CFO, and Brian Jackman, President of Global Systems and Technology. By now you have all had a chance to see the news release we issued earlier this afternoon. If not, the release is available at our website, www.tellabs.com.

Please note that in the first part of this call, unless otherwise specified, the financial details will exclude the impact of the recently closed Future Networks acquisition. Joan will address the acquisition specifically at the end of the call. Before we begin, and in keeping with the safe harbor provision of the Securities Litigation Reform Act of 1995, I would like to state that except for historical information, the following teleconference is based on preliminary financial results which are subject to further review and adjustment and contain forward-looking statements that involve risks and uncertainties. Actual results may differ from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, risks associated with introducing new products, entering new

markets, availability of resources, competitive response, and the economic conditions in the telecommunications industry.

The Company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after today or to reflect the occurrence of unanticipated events. For a more detailed description of the risk factors, please refer to the Company's SEC filings. With that, I will turn the teleconference over to Tellabs' President and CEO, Dick Notebaert.

Dick Notebaert: Thanks, John. Good afternoon everybody. Let me start by saying that our business is quite healthy and, in fact, most of the fundamental trends we talked about on our January call are intact. That is, let me be more detailed, demand for our core optical products or core networking products remains strong. Recovery of our managed digital network products continues. If you remember the second to third to fourth quarter trajectory of that it continues to go in the same upward direction. Interest and demand in the 6500 continues to grow. However, our CABLESPAN business is not coming back as quickly as we had anticipated. That accounts for roughly half the reduction in revenue guidance for the quarter.

In the near term our customers are turning their focus to gaining new subscribers from building new infrastructure. This environment has led us to trim our first quarter and our full year revenue estimates for CABLESPAN. When we get into Q&A we would be happy to talk about it some more. In addition to the CABLESPAN area, we are unlikely to recognize revenue from the TITAN 6000 series in the first quarter as we had originally planned. We continue to ship the 6100 and 6500 through the first quarter. We are satisfying very strong demand and growing customer demand. We are as confident as ever, that may be an understatement, about the 6500. We expect a formal announcement of a significant additional order shortly.

The combination of these two factors lead us now to project first quarter revenue in the range of $830 million to $865 million with an EPS in the range of $.35 to $.38. To put this into more perspective, we still expect revenue and EPS growth for the quarter to exceed 30%. As we move through the year we expect a strong revenue growth from the TITAN 6500 will mostly offset our revised expectations for CABLESPAN. In fact, had we been able to recognize revenue in the first quarter of the 6500 equipment we have shipped, we likely wouldn't be holding this call today. We now project revenue for the year in the $4.3 billion or $4.35 billion to $4.4 billion range and EPS of $2.13 to $2.17.

In summary, demand for our products remains strong. There is optimism around the new products that we have introduced. Tellabs will meet the adjusted revenue and earnings targets. Let me stop at this point and ask Joan to go into more detail.

Joan Ryan: Thanks, Dick. I will start with a detailed look at our updated guidance ranges for the first quarter and the full year excluding the Future Network acquisition. Let's start with the first quarter. We expect total revenue in the range of $830 to $865 million in the quarter and that represents a growth rate of 30-35% over last year's first quarter. By product area, year-over-year growth rates are as follows. We expect optical networking to grow 35-40%. Our broadband access group to grow 8-10%. Next-generation switching to be down 25-30% and our customer services area to be up 140-150%.

Operating margins are expected to range between 24-25%, which is consistent with what I talked about in January. That, of course, will be above a year ago by one to two percentage points so still a strong operating margin. EPS is expected in the range from $.35 to $.38 or 35-45% growth year-over-year excluding the impact of the Future Network acquisition.

Through the balance of the year we expect a revenue ramp from TITAN 6500 to offset more conservative expectations for CABLESPAN. Hence, our new range for 2001 EPS is $2.13 to $2.17 on revenue of $4.35 billion to $4.4 billion. We will go through a much more detailed look at full year 2001 when we report first quarter earnings next month.

Finally, as John mentioned earlier, Tellabs' acquisition of Future Networks closed on schedule last week. From a product perspective this acquisition completes Tellabs' next-generation solution for cable providers giving both existing and new customers the migration path for the delivery of voice, data, and video over a single IP-based network.

In short, we are helping our cable customers improve their profitability by both reducing their operating costs and broadening their revenue opportunities for subscribers. Despite the near term deployment pullback, the cable business remains a high growth business and Tellabs is at the forefront with a leadership position in next-generation technology.

At the same time, we are making the product attractive to a wider set of customers. At this point, CABLESPAN revenue is concentrated across a small group of very large MSO's. Adding cable data modem functionality and voice over IP expands our addressable market.

From a financial perspective, Tellabs' expects goodwill related dilution of half a cent in the first quarter, four cents per share for full year 2001, and five cents in 2002. Excluding goodwill the acquisition is essentially break-even in 2001 for Tellabs and accretive thereafter.

At this point we will open the floor to questions. We would like to keep this call to no more than 30 minutes. It is about 20-25 after so we will have time for about 20 minutes of questions. You will have ample time to ask detailed questions when we announce in April. Kelly, we are ready for the first question.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press the "1" followed by the "4". You will hear a three tone prompt acknowledging your request. If your question has been answered and you would like to be removed from queue, press "1" followed by "3" on your touchtone phone. If you are using a speakerphone, please pick up the handset before pressing the numbers. One moment please for the first question.

Nikos Theodosopoulos/UBS Warburg: My question is on the 6500. Can you talk about what has been happening in terms of why the revenues are not able to be recognized? Is it timing in terms of customer's turning up the product? It sounds like your shipment rate for the quarter was high. Can you give a target for the year on what the product can contribute? I think going into the year people were looking at a wide range of numbers. Now that you have had a few weeks and a few months what is a reasonable target for the year on that product?

Dick Notebaert: A good question. I don't think we have given a target on the product or that kind of guidance yet. I will let Joan answer that if she would like. On the acceptance, under general accounting standards, the first office applications require a requisite soak period. During that soak period or test period, if you want to call it that, even though the equipment is installed not only do we do acceptance testing and work on it with customers to exercise it extensively, this is a far more detailed soak. It is an extended period of time than you have on a 5500 or some product that is already out there. Revenue recognition accounting rules require this type of *extended* acceptance process be completed for the first few systems until this "history" of acceptance is established with customers. For our first few systems it just is going to take longer.

Joan Ryan: In January we said it would represent 20% of the overall growth for the year. We will update that guidance at the end of the first quarter. It will be slightly higher than that I think in terms of the overall growth. We shipped those systems for 6500 late in the fourth quarter and so now we are looking at early in the second quarter of recognizing those. The first few systems we will be very conservative, that is our nature. We are anticipating revenue recognition here very soon.

Dick Notebaert: It is a timing issue. Once you get passed the first couple they should roll along very well.

Brian Jackman: I agree. There is nothing in the revenue recognition issue that should be construed to imply that the testing and customer acceptance of these systems are having difficulty. We see, quite frankly, very strong demand for the products. I think it is really a timing issue and if I were the god of accounting the rules would be different but I am not.

Nikos Theodosopoulos/UBS Warburg: So there is no software fix or anything like that? It is just a soaking period that is longer than you thought.

Dick Notebaert: That is right.

Brian Jackman: It is a big system to install and a big system to test. I think we are just trying to be very conservative and cautious in when we recognize the revenue regardless of when the customer sends us a check.

Dick Notebaert: There isn't any software but. I can't remember ever turning on a system in my prior life that for the first few years you didn't have a patch or something. There is nothing there that is meaningful.

Brian Jackman: We have that in the 5500.

Simon Leopold/Merrill Lynch: Can you give a bit of an update in terms of the 6700 and how you are doing on track and beta trials coming up and 4Q availability? Can you

update that and let us know if we can look for some revenue in our models this year from that?

Brian Jackman: The reason we didn't focus on it during the prepared remarks is because it doesn't have any revenue impact in this quarter, which is really the main thrust for the call. The 6700 continues to move on track and we are very encouraged by not only the development process and how the guides are going against plans but also the customer interest. We still are on track for beginning to do early customer trials in the second quarter. That will happen. The product is due to be released late in the third quarter. Therefore, while I expect we will have some shipments and maybe even customers who pay us for the product this year, whether we recognize revenue or not is probably going to be the same issue we are discussing right now because it is a large system. While we did not have meaningful revenue ever planned for this year I think we should be cautious at this time whether we recognize revenue from that particular system. That doesn't really change the guidance that Joan just gave you.

George Nodder/Deutsche Bank: The TITAN 5500, can you give us an update on how that flagship product is doing? I am assuming based on the size of number cuts that you are not seeing any weakness there at all?

Brian Jackman: We are not. We are still seeing that product continue to maintain its growth rate and is still experiencing strong acceptance. We are in the process of turning out a large number of frames we shipped in the fourth quarter and this is continuing to grow as usual. I think that is pretty much on plan.

George Nodder/Deutsche Bank: Any concerns relative to the marketplace in general? We see companies like Nortel and Cisco lowering their expectations. I am assuming you are not seeing any of those factors impacting your business that might be impacting those guys.

Dick Notebaert: We just lowered our expectations. With our customer base and the product niche we have our problems may be different. The environment from everything you guys write that I read for the service providers is one where you have to be continually watchful. We haven't gotten any indication from any of our major customers of a downturn in this segment we are in and in our niche.

Brian Jackman: We talked about CABLESPAN and the fact that Tellabs' business is heavily focused on the incumbent carriers as opposed to CLEC's. I think this year that appears to be a very good place to be and therefore we still see them spending. Everybody reads the same newspapers as you do and we do. They are looking over their shoulders to try and be cautious and not do anything dumb. In many cases our larger customers in particular are looking at this as an opportunity to capture share while there is financial uncertainty on the part of the newer carriers.

Steve Levy/Lehman Brothers: On the EPS guidance for the year, that includes the goodwill amortization you have there every quarter?

Joan Ryan: The current amortization of goodwill is included.

Steve Levy/Lehman Brothers: Okay. That new guidance of $2.12 to $2.17 doesn't include the dilution from the goodwill for Future Networks?

Joan Ryan: That is correct.

Dick Notebaert: It is $2.13. Part of the reason is the softness within CABLESPAN customers from what we have been told will continue for the next couple of quarters.

Steve Levy/Lehman Brothers: Your assumptions for CABLESPAN over the next few quarter's [sic] sounds like you don't expect much of a pickup. Do you expect more deterioration or just flat?

Dick Notebaert: It is not very good now. It is fairly flat. We have been told by customers that for the next two quarters MSO's are shifting primarily from building out infrastructure to gaining new subscribers. They are looking at it and saying they have a need to generate revenues and control their burn rate due to less availability of funding from outside sources. You look at share prices and tech covenant requirements and so I think we have a short-term pressure on them to improve their current financial performance. I say that at the same time I would tell you that we have also been told that we are extremely well positioned in this part of the market. With what we have done with the acquisition we offer the most complete solution, DOCSIS 1.1, which will improve their economics or cost per subscriber. We have over a million lines deployed. This new path product map we have given them for IP and data is very well received by all the major MSO's.

Brian Jackman: I would echo that on a couple of fronts. One is we are hearing from competitors that the customers are reacting strongly to the migration strategy we put in place for the product. The other thing is while our current large customer base is doing exactly what Dick indicated we are still continuing to see new customers and new customer opportunities particularly in Asia. While there is this adjustment and slowdown absorption of the installation base on the part of the current customers, we see rollout plans on the part of new carriers beginning to develop as well.

Joan Ryan: From a financial perspective, the weakness we talked about in CABLESPAN over the next few quarters will be offset by focused expense control along with the revenue recognition on the TITAN 6000 series. We will see that in the beginning of the second quarter and then accelerated through the year.

Dick Notebaert: CABLESPAN of all the products probably has the lowest gross margin.

Joan Ryan: Right.

Todd Kaufman/Raymond James: I am assuming a smaller contribution for newer products particularly almost no contribution from one of your lowest margin products. Why did the operating margin guidance not change? Wouldn't margin tend to look better on lower revenues?

Joan Ryan: For the year, operating margin is up ticking a bit on the new guidance we are seeing relative to what we talked about. I think also we are seeing start-ups and manufacturing related scale impacts of the new products. While we haven't realized revenue on those in the first quarter there are some things that are period costs associated with that through our cost to goods. It is assembly and test related expenses and that sort of stuff.

Dick Notebaert: I think we are being conservative in our look at this because we are introducing rolling out the 6500 and the 6700 is a very high-end product and we have to do a lot of work on that. We are taking the right approach as far as how we are looking at it even though we are very aggressively managing our costs.

Robert Tango/William Blair: In some of the guidance you gave out the optical networking division will grow 35-40% this year and next-gen switching will be down 25-30%. Both of those growth rates seem like they are adjusted slightly from Q4. Can you comment on what is happening with next-gen switching?

Joan Ryan: Actually what I quoted was first quarter. We will give more detail product group guidance on the full year when we get together a month or so from now. That whole impact is the revenue recognition of 6500 and that is the quarter. In terms of switching overall we gave it would be down 20% in the quarter vs. 25-30%. It is our switching business primarily which is an investment area for us.

Brian Jackman: The primary part of that today is echo and so the bulk of the revenue is in that area. The issue there is the migration of the technolcgy into higher-level systems as a component rather than a standalone product. That is really the major part of the revenue side of things. As Joan said, the next-generation switching area, which is an investment area, and the guidance we have given is that we really don't expect that to be a major revenue contributor until next year. This is an emerging new marketplace that is still very immature and we don't think there will be major traction in this space until 2002.

David Heger/A.G. Edwards: My question was already answered.

Tim Sanjavo/WR Hambreth: I want to follow up on the next-generation switching front. As we talk about new products and new contribution to growth, are we talking about the SALIX product at all in those types of comments? Can you give us a feel whether you are seeing any revenue there at all in the near term and what the expectations might be for contributions going forward?

Brian Jackman: We are talking about the SALIX product as part of that product area and it is the biggest piece of the next-generation switching investment area. While we are expecting revenue from that space throughout the rest of the year, I think the guidance we are trying to give is that it will be both modest and certainly not anywhere near corporate averages as far as margins. It is a new investment area for the Company.

Tim Sanjavo/WR Hambreth: Would you expect year-over-year growth in either the broadband access or next-generation switching businesses for 2001?

Dick Notebaert: Yes.

Joan Ryan: We will. I will give more detailed guidance when we get together a month or so from now.

Hillary Sweeney/Baird Benzak: Are you gaining or holding or losing market share in CABLESPAN and does it have more to do with competition or demand?

Dick Notebaert: It has nothing to do with competition. We are doing very well and very fortunate that we did the acquisition. We are holding very well. As Brian pointed out, there are other opportunities there. We are not losing to competition at all. You might occasionally see a press release or something but when it comes down to what is being shipped and what is being deployed in the field, whether in Europe or in the United States, we are doing exactly what we should be doing.

Brian Jackman: Both the relationship we have with Riverstone on an OEM basis as well as the acquisition of FNI and along with the enhancements we put into the existing platform and the installed base we have never being stronger and that is the feedback we are getting. I think it is really just an issue of customer timing. They invested very heavily in 2000 in putting their networks in place. They now want to turn on the marketing machines and fill up those types with revenue bearing services before they begin to invest again. Quite often the model is when you are building one of these networks, if you spend a lot of money on head end equipment and then begin to roll it out on a per home or per small business basis, and you go back and re-engineer the network and determine the next city or next part of the city you will market again. It is a cycle issue, which if capital were still plentiful and cheap they might invest upfront. Right now they are trying to match revenues with expenses.

Hillary Sweeney/Baird Benzak: Can you touch on European demand and also an update on TITAN products and echo cancellers?

Brian Jackman: I am confused by the question because the TITAN is not a European product line at least as of yet. We are seeing good sales in Europe. We feel strongly about Europe and the demand for the products we have like DXX and the Focus product line that comes out of Denmark. TITAN is not a major product in the European marketplace as of yet. We expect that will change by the time this year ends as we begin to rollout some additional flavors including the 6700, which will be coming up for Europe as well.

Dick Notebaert: We have had good interest from Europe in the 6700. We just did a demo in Canada with a European PTT to look at it. It will have good traction.

Joan Ryan: This will be our last question We are out of time.

Operator: I am showing no further questions at this time.

Dick Notebaert: Thank you very much Thank you everyone.

Operator: Ladies and gentlemen that does conclude your conference call for today. You may all disconnect. Thank you for participating.

News Release

FOR IMMEDIATE RELEASE
April 6, 2001

Tellabs revises first-quarter guidance

Company expects 21 percent year-over-year revenue growth

Lisle, Ill.—Tellabs today announced revised revenue and earnings per share expectations for the first quarter of 2001. Tellabs projects first-quarter sales of about $772 million, compared with prior guidance in the range of $830 million to $865 million. The company projects earnings per share of 29 cents, compared with prior guidance of 35 cents to 38 cents.

The revised guidance stems from reduced and deferred spending by major communications carriers late in the quarter. Tellabs is aggressively managing its costs and aligning its products to help carriers meet the demand for bandwidth, lower their operating costs and generate new revenue.

"The health of our business depends on the health of our customers, and we're seeing caution from them in the current economic environment," said Richard C. Notebaert, president and CEO.

Simultaneous Webcast and Teleconference—Tellabs will host a teleconference at 7:30 a.m. Central time on Friday, April 6, 2001, to discuss first-quarter revised revenue expectations. The teleconference number is 212-231-6049. Internet users can hear a simultaneous live webcast of the teleconference at www.tellabs.com. A taped replay of the call will be available for four days, beginning at 9 a.m. Central time, at 800-633-8284. Outside of the United States, dial 858-812-6440. When prompted, enter the Tellabs reservation number: 18517124.

In 80 countries around the globe, Tellabs helps the world's leading communications service providers build tomorrow's converged networks of voice, data and video. Tellabs em-

ployees design, build and service optical networking, broadband access and next-generation switching equipment. Today most telephone calls and Internet sessions in the United States flow through equipment from Tellabs (NASDAQ: TLAB; www.tellabs.com).

Forward-Looking Statements—This news release contains forward-looking statements that involve risks and uncertainties. Actual results may differ from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, risks associated with introducing new products, entering new markets, availability of resources, competitive response, and economic changes impacting the telecommunications industry. The company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after today or to reflect the occurrence of unanticipated events. For a more detailed description of the risk factors, please refer to the company's SEC filings.

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Tellabs Operations Inc.
Revised Guidance Teleconference Call
April 6, 2001

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Revised Guidance Conference Call. During the presentation all participants will be in a listen only mode. Afterwards you will be invited to participate in the question and answer session. At that time, if you have a question you will need to press the "1" followed by the "4" on your touchtone telephone. As a reminder, this conference is being recorded, Friday, April 6, 2001. I would now like to turn the conference over to Mr. John Springer, Director of Investor Relations for Tellabs. Please go ahead, sir.

John Springer: Thanks, Michelle and good morning everyone. With me today is Tellabs' President and CEO, Dick Notebaert and Joan Ryan, Executive Vice President and CFO. If you haven't seen the news release we issued this morning, it is available at our website, www.tellabs.com.

Before we begin, and in keeping with the safe harbor provision of the Private Securities Litigation Reform. Act of 1995, I would like to state that except for historical information, the following teleconference is based on preliminary financial results, which are subject to further review and adjustment and contains forward-looking statements that involve risks and uncertainties. Actual results may differ from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, risks associated with introducing new products, entering new markets, availability of resources, competitive response, and economic changes impacting the telecommunications industry.

The Company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after today or to reflect the occurrence of unan-

ticipated events. For a more detailed description of the risk factors, please refer to the Company's SEC filings. Now with that, I will turn the call over to Tellabs' President and CEO, Dick Notebaert.

Dick Notebaert: Thanks, John. Good morning everybody. By this time you have had a chance to see the news release. Joan will talk about the numbers in more detail shortly. What I want to do this morning is to use this time to give you some flavor for what we are hearing from our customers and how the current carrier-spending environment is affecting our business.

Last month we talked and we highlighted the issues we were seeing in the cable access market. There we saw our MSO customers shifting their focus from expanding their addressable market by building new infrastructure to increase profitability by signing up more customers in the places where they have the infrastructure in place. That trend continued during the whole quarter right down to the end. In just the last few weeks, however, we experienced a more controlled order flow from our larger customers than we had originally anticipated.

Clearly, the environment has resulted in near term caution in the pace at which customers are deploying equipment. Our customers are exercising a high degree of prudence over every dollar spent. Let me balance this a bit and say that everything we hear from the customers indicates that our end user demand for services continues to grow. Fortunately for Tellabs our TITAN family of products helps our carrier customers meet this demand in a cost effective way, which is the major reason we are still able to grow total revenue 20% year-over-year even in this environment. While the US market has been challenging we continue to see pockets of strength globally, particularly in Latin America.

In fact, our managed digital products which address the needs of customers outside the United States will finish virtually on plan for the quarter. From a bottom line perspective, as you would expect we are focused on doing the things we need to do in order to recalibrate our cost structure. We started this process last month when we saw the first signs of weakness and are stepping up our efforts to ensure the most profitable path through the current carrier-spending environment. Let me stop now and let me turn the call over to Joan who will give us a more detailed look at the first quarter.

Joan Ryan: Thank you, Dick. Good morning everyone. For purposes of today's call we will go through the details of the quarter only at a high level. We will be in a better position to talk about all the details of the first quarter including the balance sheet as well as guidance for both the second quarter and the full year 2001 when we formally announce our first quarter results on April 18th.

Now for the first quarter results. As we indicated in the press release issued this morning, we see first quarter revenue of approximately $772 million, which represents a 21% year-over-year growth in overall revenue. Fully diluted earnings per share of $.29, which represents 12% year-over-year growth from a major product line perspective. We see revenues of $482 million in optical networking, which represents 22% year-over-year growth. $153 million in broadband access revenues, a level that is consistent with last year's first quarter, and $33 million in next-generation switching revenues vs. $54 million in the first quarter of 2000. $104 million in professional services revenues up from $40 million in first quarter of last year. Gross margin for the first quarter was 53% and operating margin came in at 21% of revenue.

As Dick indicated, we are well positioned to manage through these challenging times showing 21% top line growth in this kind of environment is a real sign of the value Tellabs' brings to its customers. As you would expect, and as Dick talked

about, we have already begun to proactively address cost control across the entire organization. We have cut discretionary spending while we continue to ensure that we prudently invest in the future. We are aggressively managing headcount additions.

The actions we are taking will allow us to minimize the impact of slower revenue growth on the bottom line now and ensure strong profitability in the future. With that, let me turn the call back over to Dick.

Dick Notebaert: Okay Michelle, why don't we take questions now? We will take questions for about 15 or 20 minutes, folks.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. if you have a question, please press the "1" followed by the "4". You will hear a three tone prompt acknowledging your request. If your question has been answered and you would like to be removed from queue, press "1" followed by "3" on your touchtone phone. If you are using a speakerphone, please pick up the handset before pressing the numbers. One moment please for the first question.

Greg Messnia/Robinson Humphrey: Thank you, Dick. Can you address the way the quarter has unfolded? It appears that the issues with TITAN 5500 surfaced late in the quarter. If you can give us a little color on that? Also, talk about the new product ramp up for the 6500 and how that is progressing against the more difficult industry backdrop? Thanks.

Dick Notebaert: Thanks, Greg. It did unfold in the last couple of weeks in the quarter. We had, if you go through and then this is a surface analysis of what happened, we had about $83 million in TITAN 5500 business that we had firm orders or LOI's and I can break that down and it would be about $36 million of firm order and the other were LOI's or indications to ship. In the last two and a half weeks or so of the quarter,

the last two week's [sic] of the quarter, what happened was customers called and said look we don't want to cancel the order and we want the equipment but could you put it into the next quarter? So we got pushed out into the next quarter, which I would tell you was surprising because you don't usually get the firm order. We don't normally have that much pushed forward especially on TITAN 5500, The good news there is that the orders weren't cancelled. It was just do it after the end of the quarter.

On the 6500, the 6500 is showing strength. In fact, you know I have said before I think on the last call when we did the revision, we should hit our full manufacturing capacity in May or June to accommodate the demand we are seeing. Everything we can build, we are building and shipping. The demand is very strong. I don't know what else I can say about that other than it is a very bright spot for us. It looks good.

Nikos Theodosopoulos/UBS Warburg: This is Ruben Roy for Nikos. To touch on the 6500 again for a minute, can you tell me about the longer than expected testing period you had and some revenue recognition pushed over to the second quarter, are we still on track to recognize that revenue in the second quarter?

Dick Notebaert: The answer is yes and we will have more information on the revenue status when we do the first quarter earnings on the 18th. The answer is yes. Just one comment on this. We don't have a testing problem per se. It really comes back to accounting standards that say if we push a product out regardless of what the contract says the thing has to be soaked and run for a while and being an accountant I had never heard of it but Joan is keeping us straight on this.

James Parmelee/CS First Boston: On the 5500, you mentioned about $83 million in orders or order equivalents that were pushed out. Chassis vs. new customer builds vs. existing customers; can you give us a sense of those orders? Was it all

just kind of upgrades that were pushed out? How do you gauge inventory within the channel, if you will, access to cards that will be deployed as usage continues to increase at some of your customers? Do they give a sense of visibility over the next quarter or two?

Dick Notebaert: We are going to hold that question until the 18th because I don't have a breakdown of analysis yet that can give me the difference between chassis and line cards. We are still at too high a level. If you will re-ask the question on the 18th that will be fine. I would tell you that most of the business as far as the types of customers they were the larger carriers and so if I had to guess I would have to think it would be a pretty fair mix. We had some amount of the Future package and upgrade to the larger 5500 that were pushed out that we would have shipped at the end of the quarter but those were held off. I would have to estimate the number and I am not going to do that. It would have been a meaningful percentage of that and not majority or anything. It would have been some of it.

James Parmelee/CS First Boston: A clarification for Joan. Gross margins are 53% for the quarter?

Joan Ryan: Yes that is.

Steve Levy/Lehman Brothers: Two things here. One is back to the 6500, when do you think we might have a second 6500 customer announced? I know that you said you are basically shipping everything that you can. I am assuming it is not just one customer.

Dick Notebaert: That is true, Steve.

Steve Levy/Lehman Brothers: Can you comment on the timing? The second thing is on the 6100 can you give us some qualitative comments as well and timing of the first revenues on that as well?

Dick Notebaert: On the 6500, as far as the announcement goes, I wish I could have had it already. I would hope it would be as I said before I hope that it is very shortly as far as the announcement part of it goes.

Steve Levy/Lehman Brothers: Do you think the announcement is being held up for the same reasons that they might be pushing out 5500 orders?

Dick Notebaert: I don't think so. It has nothing to do with the 5500. It has to do with some "i"'s and some "t"'s in the document.

Steve Levy/Lehman Brothers: On the 6100?

Dick Notebaert: We have shipped product. The systems are complete. Most of the acceptance is done and we are waiting for the customer to hook some additional facilities into it so they can nod their head and say it is done. As far as I am concerned we could recognize it now because we have done everything we can do from an accounting point of view and the customer has to nod their head and until they put that other part of the ring in or of their network in we have to have them say it. So everything there is done.

Steve Levy/Lehman Brothers: Joan, it sounds like you are not ready to talk about guidance for the next coming quarters. Do you think this latest little surprise here is going to impact second quarter guidance?

Joan Ryan: We are currently evaluating that. We just closed the books last night and what we are giving today are flash results but we will be discussing that and full year guidance when we talk on the 18th.

Tom Dole/Lazard: Thank you. Can you give us an idea of whether there is any gross margin pressure on the 5500?

Dick Notebaert: We have had no pricing pressure other than what I am told we have as a normal portion events. Joan, do you want to add anything there?

Joan Ryan: I would say the strength of our margin, I mean I think it is product mix related and lower CABLESPAN certainly is a factor although we had higher customer service which is obviously at lower margin. We do see strength and stability of our core product margin including the 5500.

Dick Notebaert: There is the normal pressure that you get every time you sell one of these.

Michael Chin/Merrill Lynch: Sorry I got on a little bit late. Joan, did you comment at all on customer mix or geography in the quarter?

Joan Ryan: We didn't and we will talk about that when we get together on the 18th and have more details at that point in time.

Michael Chin/Merrill Lynch: At the very least, maybe Dick in this $83 million in firm orders that got pushed out, can we assume this is primarily almost exclusively RBOC related?

Dick Notebaert: No. You can't assume that. I would say a good chunk of it but some of it comes from, I don't use the expression RBOC, there are about seven large service providers. It is better to describe it that way I think rather than to just think RBOC. If you look across the board a good chunk of this is there but there is also some from the wireless. There is some from smaller IXC's. Let me just take a look here. If I took the top seven guys that would be a good chunk of it, yes.

Michael Chin/Merrill Lynch: Is there any signs of any cannibalization of 5500 sales from 6500?

Dick Notebaert: No there is not. In fact, the only thing I have heard along that line was one of you, an analyst, at one of the meetings talked to one of our customers and one of our customers made an aside about something and when we called them and asked about it he said he didn't see it that way for a while. We aren't seeing any of that and really aren't getting any of that discussion out of the customers. What we are

getting is more one of pushing the 5500 further out because of granularity. So we are not getting that kind of feedback.

Eric Buck/Dressner: Thank you. I was wondering if you had any kind of snapshot in terms of some of the balance sheet items and what you see happening on the inventory receivables and cash for the quarter?

Joan Ryan: I said that flash results would be that we see no material change from fourth quarter in terms of DSO or inventory levels. In fact, we actually see slight improvement in both of those. I will talk about it on the 18th in terms of more details if you want to analyze it and make sure our books are completely closed.

Eric Buck/Dressner: So that would imply the cash going up?

Joan Ryan: Cash was strong.

George Notter/Alex Brown: Thanks very much guys. On the 5500 for new system shipments, my guess is they have been running around 3-6 months. Can you tell us what the order rates right now look like for those systems for the 5500 that you have to go out and ship late June and into the September quarter? Is that backlog or order book really changing or are we just talking about push outs this quarter?

Dick Notebaert: What we are talking about is basically push outs this quarter. As far as our overall load that we have in front of us, order load, we are in pretty good shape there but you have to break it down between 6500 and 5500, and we can't really answer your mix question at this point. If you looked at the total amount in the system it would look very strong to you. Again, I think we have to break that down and we aren't in a position to do that today.

George Notter/Alex Brown: The sales funnel you had been looking at a month or two ago is fairly consistent with the sales funnel you are looking at now again other than the push outs?

Dick Notebaert: I would tell you that I for one and I think all of us in the Company are extremely cautious. We felt very good about what we did back in early March and to be on this call and see the push outs we are going to be very cautious. Let me just say that the sales team would like to have higher numbers and they always do but it would be a slight difference. I think it is more caution.

Operator: Ladies and gentlemen, if there are further questions, please press "1" followed by "4" at this time.

Dick Notebaert: Operator, this might be a good time for us to close the Q&A out. Let me thank everyone. We really appreciate you being with us this morning especially on such very short notice. As I said earlier, we think we have the right recipe. We think it is the recipe for success and we are very confident or as confident as ever in Tellabs' future.

We look forward to speaking with you again. I hope all of you will join us for our First Quarter Results Call when we can get into even more detail for you on April 18th. Thanks everybody. Thanks for being on the call.

Operator: Ladies and gentlemen that does conclude your conference call for today. You may all disconnect. Thank you for participating.

News Release

FOR IMMEDIATE RELEASE
April 18, 2001

Tellabs reports first-quarter earnings results

Company announces plan to align expenses with revenue and exit SALIX® product line

Lisle, Ill.—Tellabs today announced first-quarter sales of $772 million, up 21% from $639 million a year ago, driven by demand for Tellabs' core optical networking products. First-quarter net income amounted to $123 million, up 13%, from $108 million a year ago and diluted earnings per share were 29 cents, up 12% from last year (all comparisons to prior year in this release refer to the attached pro forma results of operations).

In light of reduced and deferred spending by major communications carriers, Tellabs will realign its cost structure with its current expectations for lower revenue growth. The company will further reduce discretionary spending, eliminate salary increases this year, institute a pay-cut for all corporate officers, align manufacturing capability with demand expectations, and terminate the SALIX next-generation-switching product effort.

As a result, the company will take a restructuring and other one-time charges in the second quarter for costs associated with reducing its workforce by about 550 people, consolidation of excess facilities, related fixed asset disposals, asset impairment and excess inventory. Tellabs also eliminated 450 temporary or contract positions during the quarter and will not fill 1,100 open positions. Total charges are expected to be in the range of $150 million to $225 million. On an annualized basis, the workforce-related actions are expected to reduce Tellabs' overall cost structure by approximately 5% to 6%.

Tellabs now expects 2001 revenues of $3.6 billion to $3.7 billion; 2001 earnings per share are now expected to range between $1.55 and $1.65, excluding the goodwill from the acquisition of Future Networks Inc.

"These actions are unfortunate because they affect a lot of talented people," said Tellabs President and CEO Richard C. Notebaert. "By paring back our efforts in next-generation switching, we are aligning with our customers' priorities and strengthening our initiatives in high-growth areas such as optical networking. Despite the current challenges, I am as confident as ever in Tellabs' long-term prospects and our ability to deliver strong revenue and earnings growth in the future."

Optical Networking—For the first quarter 2001, sales of optical networking equipment rose 22% to $482 million. During the quarter, Tellabs shipped 3 million DS-1-equivalent ports of TITAN 5000 series optical networking products and continued to ship its new TITAN® 6000 series products for customer deployment.

Broadband Access—Sales of broadband access products amounted to $153 million, which was consistent with last year's quarter. Sales of the managed digital network product line posted year-over-year improvement, which offset slower sales from the CABLESPAN® product line. During the quarter, Tellabs completed its acquisition of Future Networks Inc., a leader in standards-based voice and data modem technology, which enables Tellabs to provide cable operators with a complete solution for cable-data modem and voice-over-IP services.

Voice-Quality Enhancement—Sales in the voice-quality-enhancement market amounted to $33 million, compared with $54 million last year. During the quarter, Tellabs announced voice-quality enhancement contracts with major carriers such as Globtel and KPN International Network Services.

Services and Solutions—Building on growth in its core optical networking business, Services and Solutions revenues increased 160%, to $104 million in the first quarter of 2001.

Simultaneous Webcast and Teleconference Replay—Tellabs will host a teleconference at 7:30 a.m. Central Time on Wednesday, April 18, to discuss first-quarter 2001 results. Internet users can hear a simultaneous live webcast of the teleconference at www.tellabs.com. A taped replay of the call will be available for 48 hours, beginning at 9:30 a.m. Central Time, at 800-633-8284. (Outside the United States, call 858-812-6440.) When prompted, enter the Tellabs reservation number: 18414716.

In 80 countries around the globe, Tellabs helps the world's leading communications service providers build tomorrow's converged networks of voice, data and video. Tellabs' employees design, build and service optical networking, broadband access and voice-quality enhancement equipment. Today, most telephone calls and Internet sessions in the United States flow through equipment from Tellabs (NASDAQ: TLAB; www.tellabs.com).

Forward-Looking Statements—This news release contains forward-looking statements that involve risks and uncertainties. Actual results may differ from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, risks associated with introducing new products, entering new markets, availability of resources, competitive response, and economic changes impacting the telecommunications industry. The company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after today or to reflect the occurrence of unanticipated events.

For a more detailed description of the risk factors, please refer to the company's SEC filings.

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TELLABS, INC.
Results of Operations
(Dollars in thousands, except per-share data)

	Three Months Ended	
	03/30/01	03/31/00
Net Sales	$772,108	$631,285
Cost of Goods Sold	366,202	299,094
Gross Profit	405,906	332,191
Operating Exp.		
Mktg. & G.A.	111,060	86,966
Research & Dev.	127,604	93,020
Merger Costs	---	5,760
Goodwill Amort.	4,505	3,015
Total Oper. Expenses	243,169	188,761
Oper. Profit	162,737	143,430
Interest/ Other-Net	16,105	37,771
Profit Before Tax	178,842	181,201
Income Taxes	56,335	60,690
Net Profit Before Cum. Effect	$122,507	$120,511
Net of Tax	---	(29,161)
Profit After Cum. Effect	$122,507	$91,350
Earnings per Share Before Cum. Effect:		
Basic	$0.30	$0.29
Diluted	$0.29	$0.29
Cum. Effect per Share:		
Basic	---	$0.07
Diluted	---	$0.07
Earnings per Share:		
Basic	$0.30	$0.22
Diluted	$0.29	$0.22
Average Number of Shares of Common Stock Outstanding		
Basic	408,771	408,794
Diluted	416,282	418,909

TELLABS, INC.
Proforma Results of Operations
(Amounts in thousands, except per-share data)
(Unaudited)

	Three Months Ended	
	03/30/01	03/31/00*
Net Sales	$772,108	$639,490
Cost of Goods Sold	366,202	307,916
Gross Profit	405,906	331,574
Operating Exp.[1]		
Mktg. & G.A.	111,060	86,966
Research & Dev.	127,604	93,020
Goodwill Amort.	4,505	3,015
Total Oper. Expenses	243,169	183,001
Oper. Profit	162,737	148,573
Interest/ Other-Net[2]	16,105	14,022
Profit Before Tax	178,842	162,595
Income Taxes	56,335	54,469
Net Profit	$122,507	$108,126
Earnings per Share		
Basic	$0.30	$0.26
Diluted	$0.29	$0.26
Average Number of Shares of Common Stock Outstanding		
Basic	408,771	408,794
Diluted	416,282	418,909

Pro-forma Adjustments

* Year 2000 results of operations are not restated to reflect the adoption of the Securities Exchange Commission's Staff Accounting Bulletin No. 101.
(1) 2000 results exclude a pre-tax charge of $5.8 million ($0.01 per diluted share) related to the merger with SALIX Technologies, Inc.
(2) 2000 results exclude a pre-tax gain of $19.2 million ($0.03 per diluted share) on the sale of stock held as an investment and a pre-tax gain of $4.6 million ($0.01 per diluted share) on a distribution from one of the Company's technology investments.

TELLABS, INC.
Condensed Consolidated Balance Sheets
(Dollars in thousands)

	2001 First Quarter	2000 Year End
Assets		
Current Assets		
Cash and investments	$1,019,064	$1,022,347
Accounts receivable, less allowance	594,936	802,546
Inventories	533,941	428,25
Other current assets	54,965	69,331
Total Current Assets	2,202,906	2,322,479
Property, Plant and Equipment	814,525	756,895
Accumulated depreciation	(311,510)	(296,134)
	503,015	460,761
Goodwill	167,303	73,924
Other Assets	213,176	215,903
Total Assets	$3,086,400	$3,073,067
Liabilities		
Current Liabilities		
Accounts payable	$136,503	$155,006
Accrued liabilities	119,953	164,045
Income taxes	46,769	93,294
Total Current Liabilities	303,225	412,345
Long-Term Debt	2,850	2,850
Other Long-Term Liabilities	26,938	24,221
Deferred Income Taxes	925	6,067
Total Liabilities	333,938	445,483
Stockholders' Equity		
Common Stock, $.01 Per Value	4,112	4,112
Additional Paid-In Capital	472,809	441,909
Treasury Stock	(126,476)	(126,476)
Cumulative Translation Adjustment	(154,255)	(127,018)
Unrealized Holding (Losses) Gains on Securities	(4,861)	(3,559)
Retained Earnings	2,561,123	2,438,616
Total Stockholders' Equity	2,752,462	2,627,584
Total Liab. And Stockholders' Equity	$3,086,400	$3,073,067

Tellabs Operations Inc.
First Quarter 2001 Teleconference
April 18, 2001

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Tellabs Investor Relations conference call. At this time, all participants are in a listen only mode. Later, you will be invited to participate in a question and answer session. At that time, if you have a question you will need to press the "1" followed by the "4" on your telephone. As a reminder, this conference is being recorded, Wednesday, April 18, 2001. I would now like to turn the conference over to Mr. John Springer, Director of Investor Relations. Please go ahead, sir.

John Springer: Thank you, Daryl. Good morning everyone and welcome to Tellabs First Quarter 2001 teleconference. With me today is Tellabs' President and CEO, Dick Notebaert, Joan Ryan, Executive Vice President and CFO, and Brian Jackman, President of Global Systems and Technology. By now you have all had a chance to see the earnings release we issued earlier this morning. If not, the release is available at www.tellabs.com

This morning Dick will start with a look at the actions we are taking to maintain strong profitability and focus on the Company's product offerings. Joan will go through the first quarter results in detail and updated guidance for second quarter and the remainder of 2001. Then we will open the floor to questions for Dick, Joan, and Brian. Before I being [sic], I have two things to mention. First, the year-over-year comparisons we present today are based on pro forma 2000 results, which are included in the press release for your reference.

Second, in keeping with the safe harbor provision of the Private Securities Litigation Reform Act of 1995, I would like to state that except for historical information, the following teleconference is based on preliminary financial results which

are subject to further review and adjustment and contains forward-looking statements that involve risks and uncertainties. Actual results may differ from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, risks associated with introducing new products, entering new markets, availability of resources, competitive response, and economic changes impacting the telecommunications industry.

The Company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after today or to reflect the occurrence of unanticipated events. For a more detailed description of the risk factors, please refer to the Company's SEC filings. With that, I will turn the call over to Dick.

Dick Notebaert: Thanks, John. Good morning everyone and thanks for joining us. Tellabs had a relatively solid performance in what was clearly a challenging quarter for the entire industry. However, the quarter clearly did not live up to our expectations. Declining business trends we experienced late in the quarter indicates that we are operating in a different market than we were just a few short months ago. In fact, a very different environment than it was just a few weeks ago. Our customers are reviewing, and in some cases, reducing their capital spending plans so we have factored that in when forecasting our business trends through 2001. To ensure we continue to maximize our profit potential through the current environment, we are recalibrating our cost structure.

In today's news release we outline some of the actions we are pursuing. Given the current environment, we are acting decisively to align our cost structure with our expectations for lower growth.

As outlined in the news release, we will further reduce discretionary spending and eliminate salary increases for Tellabs' employees this year. We will institute and have insti-

tuted a pay cut for all corporate officers. We will align our manufacturing capability with our demand expectations for this year and we will exit our current next-generation switching product effort.

Let me explain further. We have decided to terminate our SALIX next-generation switching program. This was, of course, the most difficult decision we had to make because of the direct effect it has on the lives of so many very talented Tellabs' [sic] employees.

In my recent conversations with many of you, I have tried to make the point that Tellabs actively participates in two product segments—optical networking and broadband access while characterizing our activities in next-generation switching as aspirational. I say that because we have not achieved significant traction with the SALIX platforms.

In addition, the switching market is changing rapidly. From a technology standpoint, we are still in a transition. A transition that is likely to ultimately lead us to solutions that are fundamentally different from what can be delivered by today's technology. We simply are not convinced that the current model will generate sufficient returns that warrant continued investments. We are changing our approach. From this point, Tellabs will no longer pursue any sales activities related to any of the products in the SALIX program. Let me make it clear, we will continue to pursue this market opportunity and will be leveraging everything we have learned over the last few years by focusing our development efforts on a new set of solutions.

This decision will enable us to accelerate our initiatives into other high growth and high return areas which are our core competencies. To this end, we are reassigning a portion of the engineers towards developing feature richness in optical networking. By doing so, we will help drive further improvements in time to market, which is one of our key objectives.

We will also resize and restructure our manufacturing capacity in New York for optical production to help satisfy the strong demand that we are seeing. The net result will be a reduction in headcount of approximately 550 employees or approximately 6% of our total workforce.

In addition, we have eliminated about 450 contract and temporary employees. We will not fill 1100 open requisitions that we currently have. In addition, in Illinois and in Texas, our manufacturing will adopt a four day work week from April 23rd thru June 1st, that is, except for our TITAN 6500 product lines, which we will continue to run full board.

The employee costs associated with these actions as well as the charges associated with consolidation of excess facilities, related fixed asset disposals, asset impairment, and excess inventories, will be recognized through restructuring and other one-time charges during the second quarter.

In total, we anticipate the charges to be in the range of $150-225 million. On an annualized basis, these actions are expected to reduce Tellabs' overall cost structure in the approximate range of 5-6%. Initial savings are expected to begin in mid-second quarter with full range reduction expected in the third quarter. The specific components contained within the restructuring and the one-time charges will be quantified and reported in the May timeframe once we complete our full analysis.

Doing the right thing for the long-term health of the business, however painful, is in the best interest of all our shareowners. In a moment Joan will discuss our revised guidance for the second quarter and the balance of 2001.

Essential to the viability of that guidance are the actions we have undertaken today. For this reason, we did not update guidance until we were able to finalize these actions. Moving forward, Tellabs has a strong franchise based on the right strategies, the right products, the right customers, and great

employees. Despite the current challenges our core business is solid and the customer input we are getting on the TITAN 6000 series tells us that our future revenue path is intact. With the actions we announced today, we will help ensure that we continue to drive strong profitability. With that, let me turn the call over to Joan. Joan?

Joan Ryan: Thank you, Dick. I will start this morning with the details of our first quarter results. Net income for the first quarter increased 13% to $123 million. That compares to $108 million in the first quarter of 2000 excluding one-time items. Diluted earnings per share were $.29 including goodwill of approximately $.01 per share associated with the February Future Networks acquisition. This represents a 12% increase over the $.26 recorded in the first quarter of 2000 excluding the one-time items.

We will start with the income statement beginning with revenue in terms of the details. Optical networking revenue at $482 million for the quarter was 22% above last year's first quarter. We shipped over 3 million DS1 equivalent ports in the first quarter for the TITAN 5000 series and that is up 29% vs. last year. Broadband access revenues of $153 million were consistent with last year's level. Sales of our managed digital network product line posted a year-over-year improvement in the first quarter, which offset slower sales from our CABLESPAN product line. Voice quality enhancement revenues were $33 million in the first quarter and customer services and solutions revenue were $104 million, which represents another strong quarter for that sector.

Turning now to the profitability aspect of our business. Operating income rose 10% for the quarter and despite lower than expected revenue growth in the quarter, we delivered a respectable operating margin of 21%. Gross margin for the first quarter was 53% or about two points lower sequentially due to product mix related changes. As expected, core prod-

uct gross margins remained consistent with fourth quarter levels.

Turning to operating expenses. R&D expenses rose to $128 million, which represents 16.5% of sales. Sales general and administrative expenses were $111 million or 14% of sales. In total, operating expenses as a percentage of sales were above trend at 31% as our expense budget was calibrated to a 35-40% revenue growth rate for the quarter. Expense control is a major focus area for us as we continue through 2001. Dick highlighted the measures we are taking to bring down our cost structure.

Other income excluding one-time items increased $2 million vs. last year primarily as a result of higher investment income from our cash and investment balances. As expected the tax rate for the quarter came in at 31.5%.

Turning now to the balance sheet. Accounts receivable decreased 26% sequentially to $595 million from $803 million last quarter. Day sales outstanding at 70 days was improved vs. the 72 days achieved for the fourth quarter.

Inventory turns at three times were down from the 4.7 times at the end of the fourth quarter. Inventory in terms of dollars increased by $106 million sequentially. Last week we gave indications that inventory levels would be down and that was based on very preliminary results. The books are now completely closed having fully analyzed numbers and the sequential increase we experienced was primarily driven by continued shipments of our new TITAN 6000 series products in the quarter, which were not recognized as revenue this quarter, inventory build related to optical networking orders that were deferred late in the quarter, as well as a build up of CABLESPAN inventory due to the slower sales growth in the quarter vs. our original forecast.

We are currently evaluating the impact of the termination of the SALIX next-generation switching program as well as the

recent slowdown in customer demand may have on the carrying value of our finished goods component inventories. An estimated charge for excess inventory is included in the range of the restructuring and one-time charges that Dick talked about earlier.

Operating cash flow for the first quarter was approximately $145 million, which is up sequentially from the fourth quarter. Cash and investments totaled just over a billion essentially flat with fourth quarter levels. The primary non-operating use of cash in the quarter came from our acquisition of Future Networks, which closed in February. Actual number of shares outstanding were approximately 409 million at the end of the quarter.

Now let's address our outlook. Let me start by putting some quantitative details around the initiatives Dick mentioned earlier. As you know, we will be taking a restructuring charge plus one-time charges in the second quarter. The guidance I will provide today which follows will exclude these charges but include the related costs and expense savings. The actions we are taking to align our cost structure with lower revenue growth will allow us to hold expected operating expenses for the second quarter through the fourth quarter in the range of $240 million consistent with the first quarter. In total, this results in a 9% savings vs. our plan for the full year, our budget for the full year.

Now to the revenue for the year. We are now forecasting year revenue to be in the range of $3.6 million to $3.7 million. Our updated revenue estimates are based on the following expectations by product groups. For optical networking products we expect 10-15% year-over-year growth with the TITAN 6000 series products contributing approximately $175 million in revenue.

Broadband access revenues are expected to be flat and slightly down vs. the year 2000. We are forecasting a 10-15% decline in voice quality enhancement revenues and a 50% growth in special services.

Based on the expected mix of revenues, gross margin for the full year 2001 is expected to be in the low 50% range. We expect operating expenses as a percent of total revenues to be in the mid 20% range and that would be driven by sequential improvements in operating expense rate through the remaining three quarters of the year. Based on these forecasts, we expect to deliver a solid operating margin in the mid 20% range for the full year 2001.

From an earnings perspective, we now expect full year earnings per share to be in the range of $1.65 per share and that would exclude the related dilution of $.04 per share relating to our acquisition of Future Networks. With respect to the second quarter, we are targeting total revenue of approximately $780-820 million, which is slightly higher sequentially. We are estimating optical networking and voice quality enhancement revenues slightly higher sequentially. Broadband access and Customer service revenues are expected to be slightly lower sequentially.

Gross margins will be sequentially lower in the second quarter due to a higher mix of professional services revenue as well as the new product start-up costs and manufacturing scale impacts associated with those new products. Operating expenses are flat sequentially for the second quarter as we begin to see by mid quarter the effects of the expense reduction initiatives that Dick highlighted earlier.

As a net result, operating margins are expected to be flat. All of this leads us to target second quarter earnings per share in the range of $.29 to $.32 excluding one cent of goodwill from the Future Network acquisition. Now I will turn the call over to Dick for some closing comments.

Dick Notebaert: In summary, I think we are heeding the warnings we got in the last few weeks, late in the first quarter, and we are responding by tightening our belts during the market uncertainty so we can help assure that we navigate through these times both profitably and sensibly. By sharpening our strategic focus I think we are ensuring that our internal resources are optimally aligned towards the initiatives that will drive our future, profitable growth.

At this point, I will open it for questions. We will limit the call to about an hour so please everyone be thoughtful in asking questions and limit it to one.

Operator: Ladies and gentlemen, if you have a question, please press the "1" followed by the "4". You will hear a three tone prompt acknowledging your request. If your question has been answered and you would like to be removed from queue, press "1" followed by "3" on your touchtone phone. If you are using a speakerphone, please pick up the handset before pressing the numbers. One moment please for the first question.

John Butler/SG Cowen: Question on visibility. At the end of March you indicated that orders had fallen off quite dramatically and quite suddenly and I was wondering if you could speak to how those trends carried over into the current quarter. If you can sort of add a little color on that on what you are hearing from your customers.

Dick Notebaert: The large service providers continue to view our products and services in a very bright light and we continue to have growth there, not as high a growth as we had last year. On the CLEC side and on the smaller service provider side, we see the same things that you read about in the press and we hear the same things from them. There is a lot of people having a difficult cash position and so everyone is being very judicious in how they spend it Brian, anything you would add to that?

Brian Jackman: No I think that is pretty much the trend we see. We see pockets of stronger geographic areas. Europe has not quite felt as much of a slowdown as the States have and one of the issues we have with visibility is take a look at the impact of new products. We are seeing very strong and very visible demand, for example, in the new 6500. As Joan indicated, it will just take us a little time to turn that into recognized revenue. I think we are well on our way to do that.

John Butler/SG Cowen: Can you speak to the order trends so far this year?

Brian Jackman: I am calling in from Ireland right now and I don't have the data in front of me. Maybe Dick would want to comment on that.

Dick Notebaert: Joan, why don't you pick that up?

Joan Ryan: Our book to bill in the first quarter was greater than one. If you look at our overall backlog, and I will do it first without 6500 so we have apples to apples vs. where we were a year ago, our backlog at the beginning of the second quarter is flat year-over-year. If you include TITAN 6500, the backlog is up substantially year-over-year.

Dick Notebaert: Of course, the 6500 as we have talked about in our prior calls, we don't hit full ramp until end of May or early June. We are flat out on it now but we won't be able to see the full impact of that until the fourth quarter ramping up from the third quarter.

Alex Henderson/Salomon Smith Barney: Just a technical question. The goodwill exclusion here is just the goodwill associated with the acquisition? You are still carrying amortization and goodwill deferred comp costs in the income statement in future quarters?

Joan Ryan: That is correct.

Alex Henderson/Salomon Smith Barney: We should still be using the same model of forecasts that we have been using?

Joan Ryan: Yes. I excluded it so we would have an apples to apples comparison as you look at 2000 vs. 2001. What you would do to just reduce the numbers I gave you is by four cents which relates to that goodwill.

Alex Henderson/Salomon Smith Barney: So the reported numbers then will include that goodwill because that is consistent with the way you are reporting?

Joan Ryan: That is exactly right.

Alex Henderson/Salomon Smith Barney: Can you give us some sense of what is going on with the 5300? Is that part of the area that slowed down here? Also, can you give us an update on the 6100 and 6200 products as well as Focus? Are you finding any traction to those DWDM products?

Dick Notebaert: The 5300 has slowed down compared to last year's growth. On the 6100, we are getting excellent reception for it. Brian, you want to talk about the 6200?

Brian Jackman: The 6200 tends to get buried inside the general Focus product line because it is part of that area. Actually that Focus product line in general, including the 6200, has been a very strong product line for us during this past quarter. The outlook for it for the rest of the year also remains nicely strong. We had some good news from a major global customer just in the last couple of days that is going to be deploying that at a new network. I am pretty encouraged about that space.

Alex Henderson/Salomon Smith Barney: Given comments about the elimination of SALIX, can you talk about what you are doing to incorporate soft switch type technology into the CNTS applications in the broadband access segment?

Brian Jackman: In the near term we have a couple customers who are entertaining bids and of course as you know we are working with Riverstone on an OEM basis for their CNTS. On these bids we are partnering with soft switch partners on

an application by application basis. We are talking to several people in that space and depending on what features and functionality are required by a particular bid we are partnering with people at that time. We have not selected what I might describe as a longer term strategic partner. We are working with a couple.

Alex Henderson/Salomon Smith Barney: Is the Riverstone partnership as targeted as it has been?

Brian Jackman: Riverstone partnership is still moving forward and I would say we are not quite ramping the revenue that we had hoped but a lot of this is dependent on these decisions which are pending so we are still very encouraged about the relationship.

Eric Allard/Will Banks Smith & Thomas: Good morning. Can you provide the actual sales number for CABLESPAN in the quarter? Also, tell me what that equated to in terms of growth or lack of growth in a sequential and year-over-year basis and provide any additional color in terms of the outlook in that part of the business.

Dick Notebaert: I will tell you that it is much softer and down, way down, from where we would have been last year on the ramp we were on. In addition, it is well below our plan and it was a significant part of revised guidance. We don't see that hardening up at least over the next few quarters based on conversations with specific customers. I don't think we will see a lot of change on that in the near term.

Eric Allard/Will Banks Smith & Thomas: Can you roll out or confirm is the primary issue one of industry wide problems or should we be worried about product specific issues with regard to CABLESPAN?

Dick Notebaert: There is no softness because of anything competitive going on. It is in fact across the industry. In fact, we are getting very good feedback from the presentations we

have made and even in the ones I have been involved with where we get good feedback from customers in Europe and in the United States. We have had encouraging news in Europe as far as opportunities in countries we were not operating in. We find ourselves in a strong position. It is an industry problem in cable.

Andrew Chopik/Nutmeg Securities: Thank you very much. The relationship with Calient, can you discuss that at all which may be having some difficulty with funding or whatever? How is that effort progressing?

Brian Jackman: That investment is an interesting investment in a good company with some good technology. It is really a venture investment from our part but we think it is strategically aligned with our interest of moving forward to more intelligent optical switching alternatives. We like what we see there. We have been talking recently about funding status and so forth but I think the comment you made is sort of generic to that space. So we will be watching that carefully. They have not come to us for example and said that they have financial problems near term and, in fact, recently I think just the opposite was true.

Andrew Chopik/Nutmeg Securities: Share buyback, you announced in October, have you actually taken any action in terms of share buybacks?

Joan Ryan: We have bought back about ¾ of that announcement. We will likely execute the remainder in the following quarter.

Andrew Chopik/Nutmeg Securities: Can you be more specific in terms of what the buyback was?

Joan Ryan: I believe it was 3 million shares out of 4 million that were purchased back. I think we did a good job.

Nikos Theodosopoulos/UBS Warburg: I have two questions. Any sense of what the unit growth is in terms of new systems year-over-year on the TITAN 6500?

Dick Notebaert: We did have growth in new systems and it was down slightly from last year but still very high. I wish everything was that high. We had just over 3 million in port growth.

Nikos Theodosopoulos/UBS Warburg: The port growth was 29% and the units of new systems was flat or down?

Dick Notebaert: I did not say that. The new systems would have actually been a higher number than that.

Nikos Theodosopoulos/UBS Warburg: On the 6000 series you gave guidance of $175 million for the year which is a big ramp. What kind of update on number of customers or something to give us confidence that that number is achievable and maybe some rough number of what it can be in Q2?

Dick Notebaert: What will happen in Q2 is we will be recognizing the revenue of the systems we shipped late in the fourth quarter and the ones in the early first quarter. The numbers that Joan gave you as far as backlog goes have this included in it. As far as customer numbers, I don't think we will speak to that.

Joan Ryan: I would say what Dick just said is correct. The backlog is flat year-over-year excluding 6500 but up substantially if you include it. That speaks to some of the visibility we see and it will ramp. We will see revenue recognition in the second quarter and it will continue to accelerate as we move forward through the year. The manufacturing capacity piece of it is one of the drivers because we will be then at full capacity toward that forecast in the May/June timeframe.

Dick Notebaert: The gating factor is our manufacturing capacity.

Nikos Theodosopoulos/UBS Warburg: Do you have deployment orders from more than that customer at this point?

Dick Notebaert: We have orders from more than that customer. We have orders.

Greg Mesniaeff/Robinson Humphrey: Thank you. Can you give us a breakdown of frames to port cards on a percentage basis? What was it this quarter vs. a year ago and in the fourth quarter?

Joan Ryan: In terms of sequential growth we had a mix of higher port cards as a percentage of sales sequentially. We continue to have solid demand for new systems. If you look at the next seven consecutive quarters we have had very strong system sales and the benchmark we set for ourselves, in terms of a target, we have achieved that internal target in the last seven consecutive quarters. I think that speaks to the overall health of our business and the annuity potential of the 5500.

Greg Mesniaeff/Robinson Humphrey: Can you give us detail on 3000 port frames, is that shipped at any meaningful volume in the first quarter?

Joan Ryan: It did. We shipped several systems and we had more backlog into the second quarter.

Brian Jackman: On the new systems vs. growth numbers if you look back at the year ago comparable quarter and the last couple of quarters the numbers really have not on a percentage basis moved more than a couple percentage points. In the past we were using the new systems and system expansions as sort of a 40% number and the growth around a 60% number and we are still very much in that range as far as the revenue breakdown.

Jeff Lipton/J.P. Morgan: Can you give us a little color on $175 million, a ballpark of 6500 vs. 6100?

Brian Jackman: I would say now the plan is that the bulk of that is going to be the 6500. I don't think we want to give

specific numbers out. I think there is a predominant number there and probably 80% or so is going to be made up of 6500 frames. Quite frankly we have either firm orders or letters of intent for a number much larger than that. To the prior question about ramp, it is a manufacturing ramp issue but is not quite as bad as it appears because we sort of have this revenue recognition ramp folded on top of it, which hides the fact that we are shipping and physically installing a large number of frames as we speak.

Jeff Lipton/J.P. Morgan: For the 5500, any change in pricing or competition from some of the newer entrants?

Dick Notebaert: No. The pricing pressure we get is a pricing pressure we get every year that the sales force gets about buying a lot of our products and you need to give us a better discount. We are getting the normal pressure but not from competitors dropping prices.

Joan Ryan: Our margin for our core products has remained stable. It is forecasted to do that as well within the full year guidance I provided.

Ken Leon/ABN Amro: In the guidance for the full year, is that affirming that more service providers are deferring and will spend aggressively in the second half or what will drive "V" shaped earnings leverage you have given the flat second quarter? The next quarters are going to be very difficult comparisons on the TITAN 5500 sales of last year so will year-to-year growth comparisons be negative or do you still expect slight positive growth?

Dick Notebaert: We have said all along that a great deal of the ramp relates to the 6500 and the opportunity we have with the 6500 and our ability to produce and install and recognize revenue on that product based on what Brian said about LOI's and orders. That is extremely important to us and is in fact a large part of what you are talking about.

Joan Ryan: The guidance we gave was a slight growth in that in the second quarter and as we move through the rest of the year. As Dick said, the 6500 ramp.

Ken Leon/ABN Amro: Large service providers are not cutting back on their capital spending this second half? They are just deferring?

Dick Notebaert: I don't know that I would say they are deferring in the second half. We had this experience going on that the input we get with largest customers are that their overall cap X is flat and slightly down. They see a need for continued grooming and efficiency and we are in a sweet spot. However, that says we aren't going to get the level of growth say on the 5500 that we experienced last year in the 40+ range. We still will have solid business here. On the 6500, we are not getting an indication of deferral. If anything, we are catching a little grief about the fact that they would like us to ramp up faster.

Eric Buck/Dresner Klineworth & Wasserstein: Thank you. Can you address the inventory mix in terms of finished goods and components? How much of that is actually product in the field and could be recognized revenue in the future? Secondly, SALIX termination and a new set of solutions that are coming along, can you address what you are seeing there or how that plays out in terms of your own product lines?

Joan Ryan: The inventory piece relative to the mix of raw materials, work in process, finished goods, raw materials were up in the first quarter vs. a year ago as well as finished goods being up. Those are really driven by the increase relative to softness in CABLESPAN that was unforecasted as well as preparing for ensuring we have the right products on hand as we move forward with our new product ramp for the TITAN 6000 series.

Eric Buck/Dresner Klineworth & Wasserstein: Do you have the actual numbers for those?

Joan Ryan: Absolutely. Raw materials would be $250 million. Work in progress is $62 million and then finished goods of $221 million.

Eric Buck/Dresner Klineworth & Wasserstein: Of that 221, how much is actual product in the field?

Joan Ryan: We would not disclose that. The point is we have shipped in the fourth quarter and in the first quarter and even into the second quarter the 6100, 6500, which will be basically what materializes into revenue into the second quarter.

Dick Notebaert: We in the process of constructing our TITAN 6700 prototypes and that has created within this an expense and so that is a sizeable number we have to deal with. The other part of your question, which was on SALIX and next-gen, and Brian and I have discussed this a lot but I don't know how much we want to talk about it at this point.

Brian Jackman: If it wasn't anybody other than Eric, I would say let's say nothing. Eric, I think we would like to say almost nothing because we don't want to tip our hand at what we are doing yet especially since we know next quarter you guys will call us back and say you are late with the program. Let me say that we feel that the level of investment necessary to maintain a standalone media gateway program in conjunction with soft switch and so forth is a very expensive undertaking with a relatively short market life before we think that functionality will get integrated into other related and perhaps higher order systems.

Dick Notebaert: We tested the concept of what Brian is talking about with several of our customers and have gotten pretty good feedback from those customers. Those have been large service providers as well as what you would call newer service providers that are on the leading edge.

Paul Silverstein/Robertson Stevens: You said that the 5500 increased in new systems and was slightly down from last year. I am confused.

Dick Notebaert: I didn't say that. Let me clarify. If I look at the total number and take first quarter '01 vs. first quarter of '00 it is down slightly in total new systems shipped.

Brian Jackman: If I can add something there. What we did see was in the absolute number of brand new systems a slight decrease against the comparable quarter. We are also seeing another kind of mix because of the fact that we now have these 2000 port and 3000 port systems available. We are seeing a very, very large increase on a comparable basis in a number of what we refer to as core expansions, which is almost like selling a new system. When someone says they want to go from 1000 ports to 3000 ports you bring in all the main components to do that. We have seen a very significant increase in that and so that has been more than an offset to slight system decrease.

Paul Silverstein/Robertson Stevens: Is there a difference in terms of gross margins?

Brian Jackman: No it is negligible.

Paul Silverstein/Robertson Stevens: Can you give us insight in terms of the 6100 and numbers of customers?

Brian Jackman: We have one customer whose system is up and running and deployed. We expect to have revenue this quarter and we have several trials and a couple of major opportunities underway right now as we speak.

Paul Silverstein/Robertson Stevens: Can you update us in terms of what you are seeing in the 83 million deferred orders?

Dick Notebaert: Not yet. It is too early in the quarter. It has only been two weeks since I talked to you before and there has not been a change in the status at this point.

Joan Ryan: We factored that into the guidance in terms of the backlogs we have along with some of the behavior change we saw late in the fourth quarter. That is what you are seeing

reflected in the second quarter as well as the remainder of the year.

Paul Silverstein/Robertson Stevens: Have you all come up against quarter [inaudible]

Dick Notebaert: We have seen customers buying it. As far as going head to head, we have not gone head to head with it.

Michael Ching/Merrill Lynch: Thanks. Last year you sold about 14 million DS1 equivalent ports for the TITAN 5500 and what is the assumption in terms of total number of ports you will sell this year? Can you comment on Martis and Focus gross margins relative to the corporate average and give us some sense of where the 6500 gross margins will be relative to the corporate average once it starts to ramp?

Joan Ryan: The Martis and Focus is higher than the corporate average. We continue to enjoy that benefit relative to our overall gross margin. In terms of the 6500, the new product start-up costs and manufacturing scale impact is having a factor relative to our overall margin which would imply that that is lower than average. We do have our engineering folks very focused on cost reduction as we have done with every one of our products over the life cycle of all of our products. A continual focus on cost reduction along with the fact that as we get scale for the 6500 and work out start-up costs we would see them being more in the average range of our margin.

Brian Jackman: I don't really have a number. I guess we could extrapolate for the year but we grew the installed base of the ports just in this past quarter by almost 10%. We certainly expect sequential growth as the year goes on for the 5500. I think you could expect that number will be some place in the 4 to 5 times the first quarter experience. The other thing is still the dominant services being provided by these frames are DS1 and DS3. We shipped a very large number of DS3 and SG&S cards. While these systems are

heavily populated with optical interfaces, at the service level people are still buying copper.

Michael Ching/Merrill Lynch: You had a 29% increase in DS1 but would you expect the full year number to be up in that same range?

Brian Jackman: I think so.

Dick Notebaert: If you look at how our quarters have played out over the years and the buying pattern it is a different environment now but if you use any of the historical guidance you would look at the first quarter as being about 20% and then it starts to ramp with the fourth quarter being the biggest. That is a historical view and the environment is different. If you took the first quarter in last year's environment you would say it would be about the same. Again, it is a different environment and that is why you are hearing some hesitancy.

Truc Drew/Lazzard & Company: Regarding the change in spending behavior by the large carriers, do you get the sense that these carriers are spending less because they see less demand for their services or they are just being cautious or they are asking for a better discount?

Dick Notebaert: It varies by individual service provider. In general, on the demand side when I talk to everyone there is a consistent theme that says demand is there. Now, you know if you are talking local exchange, second lines maybe are down and there is some softness there. As far as demand across that group the demand is there. I am not talking about backbone OC192. I am talking about Tellabs' products. The demand for our products especially in the 5500 space I consistently get the statement that demand they receive is there. That is where the dichotomy comes because the cap X goes down but the demand is there and as a service provider you are by definition a service provider so how that budget whether it is flat year-over-year in aggregate terms or down 3-5% depending on the provider or maybe more in aggregate, how do you

allocate that? That is the issue going on within the large service providers. How do they allocate their cap X?

George Nodder/Deutsche Bank: Thanks very much. Are you assuming any improvements in your market share on the TITAN 5500? There are a few accounts in North America that are Alcatel accounts as opposed to Tellabs' accounts. Do you think you will pick up any share to move places?

Joan Ryan: We actually gained share last year in this space. When we put the guidance together we said sequential improvements for the TITAN 5500 series and I think it is certainly possible we would gain market share given our product vs. the competition and some of the things we feel that

Dick Notebaert: We are very strongly positioned there.

Joan Ryan: Yes.

Brian Jackman: I agree. I think we have a relatively high share now and based on both products and the fact that we continue to invest in this product and the dynamics of the market we would pick up some small amount of percentage increase.

George Nodder/Deutsche Bank: Is that already built into the expectation or it implies roughly equivalent market share?

Joan Ryan: I have given that we have less than normal visibility. The answer to that is yes.

Steve Levy/Lehman Brothers: This is Mark Schmidt for Steve Levy. In terms of the impact of the SALIX shutdown, can you give us a sense of operating expense savings that will come from the SALIX shutdown? Do you expect any asset write-downs? What kind of customer commitments did you have for the SALIX products?

Dick Notebaert: A lot of the savings comes from the closure of our next-generation switching effort and that is both across

the engineering groups, R&D, and of course there will be asset write-downs because we did have inventory built up. We did have situations where we had built and some trials going on that we will have to extricate ourselves from. Yes that is a big chunk.

Larry Harris/Josenthal: Thank you. We are seeing softer demand for the 5300? Is there something particular that is driving that like wireless applications or other applications?

Dick Notebaert: There is softer demand.

Brian Jackman: I don't have that breakdown now but I suspect it is a combination of wireless and some of the smaller CLEC's.

Dick Notebaert: I would agree with that. It is not on the larger end. One more question.

James Parmelli/Credit Suisse First Boston: On the positive side, CABLESPAN volumes have been below expectation and that gives a positive margin benefit given it is lower than corporate average margins. Are we at the low at 52.5% or do we see a little more weakness given what you described on the 6500 ramp and some of the overhead associated with that? Also, the 83 million orders currently factored into guidance, are you assuming that will ship in Q2 or is part going to ship in Q3 and Q4?

Joan Ryan: Gross margin, you are right about CABLESPAN with lower than average margin so that has a benefit. Higher customer services is a mix. We talked about very strong growth in that going forward. That somewhat offsets that. There probably is some marginal difference between where you are at vs. what we are thinking about but very marginal. Again, core product margins are estimated to remain stable.

Dick Notebaert: What we built into our guidance was not specific to the LOI's or orders we had coming out of the first quarter as far as those that had been pushed back or deferred.

We said even if those occurred there may be other deferrals or other things happening in the environment we are in. Rather than go order by order we built into the fact that there is some risk of that going forward in the second and third quarter.

James Parmelli/Credit Suisse First Boston: How do you track excess inventory in the channel in terms of cards already shipped?

Dick Notebaert: We do talk to customers about their deployment of what they have ordered. We do follow that closely although we don't do it in percentages you talk about. We tend to think about that as what opportunities are available for new sales and based on what they have what does that do to the weakness or strength of the next sale opportunity? The cards are being deployed and we don't track it that way. Thanks everybody and thanks for being on our call today. Thanks for listening in.

News Release

FOR IMMEDIATE RELEASE
June 19, 2001

Tellabs revises second quarter guidance

Lisle, Ill.—Tellabs today revised revenue and earnings expectations for the second quarter of 2001. Tellabs now projects second-quarter sales of about $500 million, compared with prior guidance of $780 million to $820 million. Earnings per share for the quarter are now expected to be break even before restructuring and other charges.

The dramatic changes affecting the landscape of the telecommunications marketplace have continued to impact Tellabs. Service providers are temporarily able to meet increased customer demand for bandwidth by reallocating capacity within their networks and are only buying equipment to meet the immediate needs of their customers. "While we continue to see caution from our customers in the pace of equipment deployment, our market position remains intact, and we are focused on ensuring the most profitable path through the current environment," said Tellabs President and CEO Richard C. Notebaert. "I remain confident that Tellabs has the right people, products and strategies to meet the needs of our customers and deliver future growth."

Simultaneous Webcast and Teleconference—Tellabs will host a teleconference at 4 p.m. Central time on Tuesday, June 19, 2001, to discuss second-quarter revised revenue expectations. The teleconference number is 212-231-6013. Internet users can hear a simultaneous live webcast of the teleconference at www.tellabs.com. A taped replay of the call will be available for two days, beginning at 6 p.m. Central time, at 800-633-8284. Outside of the United States, dial 858-587-5842. When prompted, enter the Tellabs reservation number: 19161649. In 80 countries around the globe, Tellabs helps the world's leading communications service providers

build tomorrow's converged networks of voice, data and video. Tellabs employees design, build and service optical networking, broadband access and voice-quality enhancement equipment. Today most telephone calls and Internet sessions in the United States flow through equipment from Tellabs (NASDAQ: TLAB; www.tellabs.com).

Forward-Looking Statements—This news release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding expected revenues and earnings per share. These forward-looking statements are based on currently available information and involve certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those expected. Factors that might cause such a difference include, but are not limited to, risks associated with the size and timing of product sales, customers' equipment deployment plans and budgets, new product acceptance; industry capacity; competitive products and pricing; manufacturing efficiencies, and economic changes impacting the telecommunications industry. For a more detailed description of these and other risk factors, please refer to the company's 10-K, 10-Q and other SEC filings. The company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after today or to reflect the occurrence of unanticipated events.

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Tellabs Operations Inc.
Revised Guidance Teleconference Call
June 19, 2001

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Tellabs Operations Inc. Investor Relations Conference Call. During the presentation all participants will be in a listen only mode. Afterwards you will be invited to participate in a question and answer session. At that time, if you have a question you will need to press the "1" followed by the "4" on your telephone. As a reminder, this conference is being recorded, Tuesday, June 19, 2001. I would now like to turn the conference over to Mr. John Springer, Director of Investor Relations. Please go ahead, sir.

John Springer: Thanks, Marty and good afternoon everybody. With me today is Tellabs' President and CEO, Dick Notebaert, Joan Ryan, Executive Vice President and CFO, and Brian Jackman, President of Global Systems and Technology. If you haven't had a chance to see the news release we issued this afternoon, it is available at our website, www. tellabs.com.

Before we begin, and in keeping with the safe harbor provision of the Private Securities Litigation Reform Act of 1995, I would like to state that except for historical information, the following teleconference is based on preliminary financial results, which are subject to further review and adjustment and contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including statements regarding expected revenues and earnings per share. These forward-looking statements are based on currently available information and involve certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may differ materially from those expected. Factors that might cause such a difference include, but are not limited to, risks associated

with the size and timing of product sales, customers equipment deployment plans and budgets, new product acceptance, industry capacity, competitive products and pricing, manufacturing efficiencies and economic changes impacting the telecommunications industry. For a more detailed description of these risk factors, please refer to the Company's 10-K and 10-Q and other SEC filings. The Company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after today or to reflect the occurrence of unanticipated events. With that, I will turn the call over to Tellabs' President and CEO, Dick Notebaert.

Dick Notebaert: Thank you, John. Good afternoon everyone. By this time you have had a chance to see our news release. I want to give you a look at the changing business trends as we see them through this point in the second quarter. While it is clear that the entire telecom equipment industry has been dealing with the impact of dramatic cutbacks in carrier spending and general economic uncertainty throughout 2001, the impact of these forces on orders for our products has become more pronounced during the second quarter. We have dealt with these issues in the access portion of our product portfolio since late last year.

As we exited the first quarter, we saw the initial signs of broader weakness in the form of reduced and deferred orders from our larger North American based customers late in the quarter. We heeded these signals with more conservative guidance for the second quarter. However, after two months, we are experiencing more pronounced weakness in order flow from this segment than we had anticipated. As we speak with our customers some central themes continue to emerge. First, we continue to hear caution and concern. We hear it from our customers, the very same things you read in *The Wall Street Journal* every day. The same things you see reflected in the stock market every day. Clearly, the current environment

continues to slow the pace at which our customers are deploying equipment. Second, the pace of net capacity additions in the networks of our large North American customers has slowed. This, however, runs contrary to the information we hear from our customers that end user demand for services continues to be strong. This remains a constant.

What has caused the recent disconnect between end user demand and our order patterns? It comes down to two primary drivers which taken together have had a dramatic impact on our order rates during the quarter. First, increased financial conservatism on the part of our customers means that they are no longer buying in advance of demand but are trying to align with the immediate customer need. They are working off of reserve stock as they go to just-in-time inventory and are not bulking up. Second, our larger customers are temporarily able to meet incremental end user demand by reallocating capacity within their networks. The source of this reallocation comes from capacity that had been set aside or used by alternative service providers or other potential customers. The dramatic changes in fundamentals within this carrier segment have provided a temporary source from which our larger customers can accommodate internal growth.

As a result of these issues, we are now targeting total revenue for the quarter of around $500 million. In a minute Joan will discuss more detail on our revised guidance for the quarter. Before I turn the call over to her, let me share with you a bit of perspective and separate the incremental changes of the current environment from Tellabs' longer-term competitive position. While we are not providing specific guidance beyond the second quarter today, based on what we see now, we anticipate several more challenging quarters ahead as the industry digests the impact of the issues that I have already mentioned. Let me reiterate, however, the conversations with customers which indicate continued healthy end user demand

for the services Tellabs' products help deliver. Our customers remain committed to Tellabs' products as the means to deliver these services. Our market share positions are intact. This is important as we are at the beginning of an exciting new product cycle with our TITAN 6000 series. We will recognize our first revenue from these products in the second quarter. As customers confirmed recently at SuperComm, interest in and demand for these new products remains strong and we are aggressively ramping capacity to meet the demand we see. These two products, as well as the TITAN 6700, which shipped last week for its first field trial will bring substantial top line growth drivers to the Tellabs' product portfolio.

Despite the current challenges, we are as confident as ever in Tellabs' long-term prospects. We have extraordinarily deep relationships with our customers, which are predominantly the larger North American carriers. We have a solid financial foundation from which to operate. We are in the initial stages of an exciting new product cycle that significantly enhances our product line breadth and increases our addressable market. That is a good position to be in. It has never been more important than it is today. In addition, our business outside of North America or outside the United States continues to perform well. With that, let me turn it over to Joan.

Joan Ryan: Thank you, Dick. Good afternoon everyone. Let me start by giving you the details of our revised guidance for the second quarter. This guidance excludes the restructuring and other one-time charges of $262 million, which we announced at the end of May as well as the incremental goodwill from the Future Networks acquisition. In terms of revenue, we now expect second quarter total revenue to be around $500 million. The approximate breakdown by product area is as follows: we expect to realize about $210 million in operating optical network revenues, approximately $150 million in broadband access revenues, about $40 million in

voice quality enhancement revenue and approximately $100 million in professional services revenues.

Due to a material shift in revenue mix across our product group as well as lower shipment volumes through our manufacturing plants, we now see our second quarter gross margins to be in the low 40% range. However, let me note that we continue to see stable pricing trends across all of our products.

Reflecting both the restructuring we announced last quarter and the continued focus on cost control throughout the organization, total operating expenses for the second quarter are now expected to be sequentially lower at around $225 million, which is below the $240 million previous guidance we provided to you in April.

Second quarter earnings per share excluding restructuring and other one-time charges as well as the dilution associated with the Future Networks acquisition are now expected to be at around breakeven. On a reported basis, which means including restructuring and other one-time charges along with the $.01 per share dilution related to the FNI acquisition, Tellabs will show a quarterly loss of approximately $.45 per share.

With respect to the remainder of 2001 given that the timing and extent of this industry wide adjustment is unclear, we will refrain from giving specific guidance beyond the second quarter at this time. While we clearly face challenge in the near term, Tellabs is focused on the most profitable path with the current carrier spending environment. Supplementing Tellabs' traditionally strong balance sheet we are beginning to see improvements in our operating expenses as a result of the actions we rapidly undertook in the first quarter to recalibrate our cost structure.

We will continue to closely examine our cost structure going forward with the goal of maximizing profitability while of

course balancing the need to continue investing in areas that drive future growth. At this point, we will open the floor to your questions. I would like to ask you to limit this to 30 minutes, which is the duration of our call. We have about 15 minutes for questions. You will have ample time to ask detailed questions when we announce in mid-July. Marty, we are now ready for the very first question.

Operator: Thank you. Ladies and gentlemen, if you wish to register for a question for today's question and answer session, you will need to press the "1" followed by the "4" on your telephone. You will hear a three-tone prompt acknowledging your request. If your question has been answered and you would like to be removed from queue, press "1" followed by "3" on your touchtone phone. If you are using a speakerphone, please pick up the handset before pressing the numbers. One moment please for the first question.

Paul Silverstein/Robinson Stevens: Can you talk if any of the 210 in optical was from the 6500 product or is expected to be in the 6500 product?

Joan Ryan: Yes it did. That is actually from the full TITAN 6000 series and we expect to generate first revenue and the amount is $13 million. It is a combination of the 6500 and the 6100.

Paul Silverstein/Robinson Stevens: In terms of customers, is the 6500 still at one customer account or has that changed?

Dick Notebaert: It is still at one. We are recognizing revenue at one customer.

Paul Silverstein/Robinson Stevens: Are you shipping to more than one customer?

Dick Notebaert: Yes we are.

Paul Silverstein/Robinson Stevens: You are shipping to more than one but haven't recognized revenue?

Dick Notebaert: That is correct.

Steve Levy/Lehman Brothers: On the long-term operating model, if you look at this typically in the days of IPO's of companies with long-term operating model assumptions in terms of profitability and maybe you can qualitative or quantitative describe where you would expect to be at the end of 2002 or maybe 2003 on a long-term operating model basis. Would you expect there are any other write-offs or charges beyond the $262 million you already outlined?

Dick Notebaert: Let me take the second question first. Right now we do not expect any significant write-offs that would call for an announcement similar to what we did. On the first question I will ask Joan or John to answer that. We do have a long-term model.

Joan Ryan: We have always used our mantra as 30/30 and at this point and when we entered the year we had thought that was what we would achieve for this year. I think at this point given the lack of visibility and not understanding completely the extent or timing of this industry wide adjustment, I don't think we are prepared to talk about that. We do see the outlook to be strong for Tellabs relative to our position. We talked about our new products and the exciting new product cycle we are entering and our strong financial foundation, which will enable us to continue to invest going forward for our business.

Dick Notebaert: I read what you have written and I read what other people have said and if you look out at where we go after this burning off capacity, I think you see us getting back on the where we have been as far as earnings go. The 30/30 model may not hold in '02 because it will depend on where we come out of this thing. What we have going for us and what we all feel very optimistic about as a Company is the 6000 series and traction it is getting with customers. We would have liked to have recognized more revenue but it looks like we are getting a pretty good take on the product.

Paul Silverstein/Robinson Stevens: What I was really trying to get to was operating profitability and obviously nobody has been good at forecasting the revenues but we can take a guess at that but in terms of right sizing the organization and get to some situation at the end like '02 or maybe even early '03, do you think you will get back to the old operating margins?

Dick Notebaert: You are damn straight, yes. What Brian has done in his shop and what John Kohler has done in his shop and what we have done across the board will place us in that right position. We absolutely believe we will be in the exact right spot to return the type of earnings and net income we have had. Thanks for the question. Thanks for clarifying it, Steve.

Michael Davies/Lands Berg Tallman: Can you give us an idea of where you see the spending coming from and what the errantry of revenue is coming into the quarter here? Is it from the incumbents or can you give us color on that?

Dick Notebaert: If you look at the spending, it appears to be coming from larger customers which is what we would expect it would come from. There is still extreme softness and consolidating of their efforts and being under even more financial pressure. We have all read about some of that in the media so I am not saying anything you all haven't read. As far as the quarter goes, if you look at the two and a half months that the quarter has gone, it has not seen the usual spike you would see in the third month of the quarter. It has, in fact, been more steady state for us.

Brian Jackman: I would reaffirm that. I think as far as sectors, I think we have felt that the wireless sector has held up pretty well and our international business has held up pretty well. So on a relative basis, I think those are the areas that have been the least disappointing. We are seeing pullback on the part of larger carriers even though we think we are still getting our share or more and their absolute level of spending has been reduced.

Dick Notebaert: I think that is important. Outside the United States our performance has been in the range of our plan and we felt pretty good about the traction and what the guys are doing outside the U.S. and the buying pattern of those customers. We have not seen softness there yet. In fact, that is a bright spot for us.

P*aul Fortsbach/J.P. Morgan H&Q:* This is Paul for Jim Lipton. Looking at our model, it appears there is a significant amount of softness in the TITAN 6500 and can you give us an idea if the pullback is more in chassis initial deployment or in additional expansion of already deployed systems?

Brian Jackman: I don't know at this stage of the quarter. We have a fine cut on that. I would speculate now that it has been pretty evenly spread. We are in the process of doing a large number of installations of frames we shipped late last year during the first quarter and so to a certain degree that has probably slowed down the shipment of new systems because the customers themselves are asking that we get the previously ordered systems in place before they generate new orders. I think there has been a pullback on orders for plugs as well as they work down the inventory in their big centers.

Dick Notebaert: I think it is pretty even across the board. I agree with Brian. We have just seen that part of our product line just be in general soft. There are a lot of products in our industry where you see the same thing—great products like the 5500 where things have just slowed.

Brian Jackman: I mean that lag is normal. It is not atypical for a large carrier to have the time interval of three to six months between the time a system is shipped and the time it starts to be turned up and fully provisioned for service. Some of this is normal. What is not normal is the anticipation of what they will need in the next couple of quarters. Like us, I think they are worried about this ability.

Jeff Meyers/Ivory Capital: Can you delineate between the IXC's and the RBOC's and if you have seen reallocation of capacity which originally was intended for CLEC's?

Dick Notebaert: I think it has been pretty even across the board. I don't think you can differentiate. At this point we don't have the final numbers in where we do it by company or by segment. I think the large service providers have been pretty even as we look at it across the board. Obviously we have gotten good traction with the 6500 from local exchange carriers and so we feel pretty good about that.

Operator: Ladies and gentlemen as a reminder, if you do have a question, please press "1" followed by "4" on your telephone pad. I have a follow-up question from Paul Silverstein from Robinson Stevens. Please go ahead sir.

Paul Silverstein/Robinson Stevens: Thanks very much. Can I ask you to revisit the linearity question and give us more detail in terms of what you saw during the quarter and whether this is trends worsening dramatically as you went from the first month toward June and also if you can talk about where we should expect expenses to go going forward?

Dick Notebaert: I will try it again. Come back at me here if I don't get to the heart of your question. If we took this quarter and the three periods of the quarter and compared it to prior quarters, same period last year or sequential quarters, what you would find is we came out and had a bit of a burst in the first part of the quarter and an up tick. Then it softened and everything is relative. In the last couple of weeks, the last week or six days ago, we have seen an up tick again. I will tell you that it has not been the type of up tick that we would have had in the past. In the past it would have been a staircase where you would have been pretty good in the first period and even better in the second period and then really good in the third period of a given quarter. Does that answer the linearity question?

Paul Silverstein/Robinson Stevens: Yes it does.

Joan Ryan: I can answer that as well. What we started to see at the end of the first quarter in March, which was a very abrupt change and it was even deep and further as we moved through the second quarter hence, the shortfall vs. where we thought we were going to be. Another phenomena is while we were getting orders there was also the tendency on a more accelerated basis than we have seen in the past of customers placing an order and then later scheduling it out for a future date or reducing the order altogether. It has been somewhat erratic in terms of that and I think again it comes back to our customers evaluating what their needs are within the network and being very judicious around their spending and only spending when they absolutely have to and increasing their network utilization rates and redeploying the capacity for CLEC interconnection and things like that. While they have been going through that process during the quarter we have been seeing the effects. Again, as we mentioned before, end user demand for the equipment we provide does appear to be relatively strong albeit lower than it was last year during the boom time.

Paul Silverstein/Robinson Stevens: When you talk about erratic customer behavior, is there a growing trend toward push out and cancellation or was it bouncing around during the quarter?

Joan Ryan: I guess it would be somewhat not on an even pattern, let's put it that way.

Dick Notebaert: What we are talking about here is the fact that in the past it was very predictable you know like going up a staircase for us.

Paul Silverstein/Robinson Stevens: On the expense side, what can we expect going forward for the second half of this year?

Joan Ryan: We are not going to be giving forward guidance in detail at this point in time as I mentioned earlier in my comments. We were in the $240 million range in the first quarter and our expectation is to be around $225 million. So our overall goal was to maintain that first quarter run rate while at the same time we are very focused on several areas. One is all discretionary spending, which continues, and a focus on product cost reductions and realigning manufacturing capacity with lower revenue growth, which is something we are doing on an ongoing basis. We are also focusing R&D to those areas that drive growth and then process improvements as they relate to manufacturing efficiency and overall productivity, which is an initiative we have in place all across the organization and continue to stay focused on.

Paul Silverstein/Robinson Stevens: Given what you just said, is it correct that beyond driving efficiencies in the organization you are not planning on downscaling the organization given the run rate?

Joan Ryan: As of today what we said was that we are in the process of evaluating our cost structure, which is an ongoing process.

Dick Notebaert: Marty, we will take one more question.

Michael Bruno/Warshtech.com: I would like to get an idea on how big your workforce is now and what sort of staff reductions you think will be happening?

Dick Notebaert: First of all, we did a restructuring of the Company and we put those numbers out at the end of the quarter. We are not hiring. We are treading and will continue to drive it down. We are in that 8,000 range of employees.

Michael Bruno/Warshtech.com: Do you have a target figure in mind of what you would like to be at?

Dick Notebaert: Not that we are going to give you today. Thanks everybody. Thanks for being on the call. We appre-

ciate your time. I personally look forward to having one of these calls where there is a lot of good news on it. Thank you very much.

Operator: Ladies and gentlemen that does conclude your conference for today. We thank you for your participation and ask that you please disconnect your line.

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

[Filed JUL 11, 2003]

Case No. 02-CV-4356
Judge Amy St. Eve
Jury Trial Demanded

THOMAS JOHNSON, Individually and On Behalf of All Others Similarly Situated,

Plaintiff,

vs.

TELLABS, INC., *et al.*,

Defendants.

SECOND CONSOLIDATED AMENDED CLASS ACTION COMPLAINT

Plaintiffs, through their attorneys, bring this action on behalf of themselves and all other persons similarly situated, on personal knowledge as to themselves and their own activities, and as to all other matters, based upon the investigation of Plaintiffs' counsel, which included, among other things: (i) interviews of former employees of Tellabs, Inc. ("Tellabs" or the "Company") and other persons with knowledge and information concerning the matters alleged herein, including Confidential Sources 1 through 27, described below; (ii) review and analysis of the public filings of Tellabs, including its filings with the Securities and Exchange Commission ("SEC"); and (iii) review and analysis of news articles, press releases, and analysts' reports by or relating to Tellabs. Plaintiffs believe that further evidentiary support for the allegations set forth below will exist after a reasonable opportunity for discovery.

CONFIDENTIAL SOURCES

Confidential sources (also referred to as "CS-_") who provided information for Plaintiffs' counsel's investigation included the following:

- CS-1: Confidential Source 1 is a former Tellabs marketing. manager, from several months prior to the Class Period through substantially after the Class Period.
- CS-2: Confidential Source 2 is a former Tellabs executive account manager and regional manager, from substantially prior to the Class Period through several months after the Class Period.
- CS-3: Confidential Source 3 is a former high-level Tellabs sales executive, from many years prior to the Class Period through shortly prior to the Class Period.
- CS-4: Confidential Source 4 is a former Tellabs shipping supervisor, from many years prior to the Class Period through shortly after the Class Period.
- CS-5: Confidential Source 5 is a former mid-level Tellabs employee involved in distribution, from well prior to the Class Period through substantially after the Class Period.
- CS-6: Confidential Source 6 is a former Tellabs senior business manager, from prior to the Class Period through well after the Class Period.
- CS-7: Confidential Source 7 is a former Tellabs sales director, from prior to the Class Period through most of the Class Period.
- CS-8: Confidential Source 8 is a former Tellabs marketing manager, from well prior to the Class Period through well after the Class Period.

- CS-9: Confidential Source 9 is a former Tellabs project manager, from close to the beginning of the Class Period through after the Class Period.
- CS-10: Confidential Source 10 is a former Tellabs customer accounts representative, from substantially prior to the Class Period through well after the Class Period.
- CS-11: Confidential Source 11 is a former Tellabs regional sales director, from substantially prior to the Class Period through shortly after the Class Period.
- CS-12: Confidential Source 12 is a former Tellabs installations supervisor, from the beginning of the Class Period through after the Class Period.
- CS-13: Confidential Source 13 is a former Tellabs sales manager, from substantially prior to the Class Period through the end of the Class Period.
- CS-14: Confidential Source 14 is a former Tellabs materials manager, from substantially prior to the Class Period through the end of the Class Period.
- CS-15: Confidential Source 15 is a former Tellabs manager in the business development area, from prior to the Class Period through after the Class Period.
- CS-16: Confidential Source 16 is a former Tellabs marketing strategy executive, from prior to the Class Period through after the Class Period.
- CS-17: Confidential Source 17 is a former Tellabs market analyst, from well prior to the Class Period through shortly after the Class Period.
- CS-18: Confidential Source 18 is a former high-level SALIX/Tellabs operations executive, from prior to the Class Period through the end of the Class Period.

- CS-19: Confidential Source 19 is a former high-level Tellabs sales executive, from before the Class Period through after the Class Period.
- CS-20: Confidential Source 20 is a former high-level Tellabs sales executive, from well before the Class Period through shortly after the Class Period.
- CS-21: Confidential Source 21 is a former Tellabs sales director, from well before the Class Period through well after the Class Period.
- CS-22: Confidential Source 22 is a former Tellabs operations manager, from shortly prior to the Class Period through after the Class Period.
- CS-23: Confidential Source 23 is a former Tellabs engineer who held a variety of management positions at Tellabs, from well prior to the Class Period through well after the Class Period.
- CS-24: Confidential Source 24 is a former Tellabs senior designer, from prior to the Class Period through well after the Class Period.
- CS-25: Confidential Source 25 is a former Tellabs customer manager, from prior to the Class Period through well after the Class Period.
- CS-26: Confidential Source 26 is a former Tellabs team project manager for a product distributor to Tellabs, from prior to the Class Period through after the Class Period.
- CS-27: Confidential Source 27 is a former Tellabs consultant who worked for value added resellers ("VARS"), before and throughout the Class Period. VARS are third parties that work along with Tellabs to handle customer services, including engineering site surveys, installations, and testing services. VARS also act as distributors of Tellabs' products and provide other services.

NATURE OF THE ACTION

1. Plaintiffs bring this securities class action on behalf of themselves and on behalf of all persons who purchased the common stock of Defendant Tellabs during the period from December 11, 2000 through June 19, 2001, inclusive (the "Class Period").

2. During the relevant period, Tellabs designed, manufactured, marketed, and serviced optical networking, broadband access, and voice-quality enhancement solutions. The Company also provided professional services that supported its solutions. Tellabs' products and services were used worldwide by providers of communications services. The Company's products were sold in the domestic and international marketplaces through the Company's field sales force and selected distributors. The Company's customer base included incumbent local exchange carriers, independent telephone companies, interexchange carriers, local telephone administrations, other local exchange carriers, original equipment manufacturers, cellular and other wireless service companies, cable operators, alternate service providers, competitive local exchange carriers, internet service providers, system integrators, government agencies, and business end-users. During the Class Period, Tellabs counted as customers telecommunications giants SBC Communications, Inc. ("SBC") and Verizon Communications, Inc. ("Verizon").

3. By early- to mid-2000, the Internet and telecommunications sectors were contracting significantly. In the face of this dramatic slowdown and consolidation in the telecommunications sector, Defendants falsely reassured public investors, in a series of statements made during the Class Period, that Tellabs was continuing to enjoy strong demand for its products and earning record revenues. These unqualified, positive statements, for which Defendants had no reasonable basis, had the effect of artificially inflating and maintaining the trading price of Tellabs stock. At the same

time they were falsely assuring the investing public concerning the Company's performance and prospects, Tellabs insiders profited by selling tens of thousands of shares of their personally-owned Tellabs common stock at artificially inflated prices, reaping proceeds of over $8 million.

4. In truth, and unbeknown to the investing public, by no later than the beginning of the Class Period, Tellabs' performance was being adversely affected by the same difficult telecommunications business environment that its competitors had been facing for several months. Tellabs' customers, which were telecommunications-related companies, were suffering from a severe deterioration and consolidation of their businesses. Accordingly, demand for Tellabs' products was slowing.

5. In addition to issuing a series of deceptive statements and inflated earnings guidance, Defendants sought to falsely assure investors as to Tellabs' performance and prospects by means of a number of deceptive practices that artificially inflated the Company's reported revenues and concealed the rapidly falling demand for the Company's key products. Such fraudulent practices included channel stuffing, which artificially boosted revenues in earlier periods at the expense of subsequent periods; phony sales; and offering customers excessive and unusual discounts, rebates, payment terms, rights of return, and other incentives that went beyond ordinary business practices, none of which were disclosed to the investing public. Channel stuffing is the deceptive business practice of building inventories of distributors and customers, before they would have purchased such products in the ordinary course, to artificially inflate sales and earnings. Stuffing the channel has the effect of robbing future quarters to boost sales in the current quarter.

6. As a result of Defendants' deceptive conduct during the Class Period, the price of Tellabs stock climbed as high as $67.125 per share (on February 5, 2001).

7. Defendants' efforts to obscure and conceal the truth concerning Tellabs' deteriorating sales and diminishing value continued until, at the earliest, June 19, 2001, when Tellabs finally conceded that demand for its products had collapsed, and substantially lowered its second quarter guidance, reducing expected revenues from the $780 million to $820 million range to only $500 million. In response, on June 20, 2001, Tellabs common stock fell, on record volume, from a closing price of $21.20 per share the previous day to close at $16.04 per share—a one-day decline of more than 24%. The overall decline from the inflated Class Period high of $67.125 per share to the low on June 20, 2001 of $15.87 per share was *more than 76%.*

8. As a result of the foregoing, Plaintiffs and other purchasers of Tellabs common stock during the Class Period suffered substantial damages because the market price of the stock they purchased was artificially inflated by Defendants' material misrepresentations and omissions and did not reflect the true value of the stock.

JURISDICTION AND VENUE

9. The claims asserted herein arise under and pursuant to Sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. §§ 78j(b), 78t(a), and 78t-1], and Rule 10b5 promulgated thereunder by the SEC [17 C.F.R. § 240.10b-5].

10. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa] and 28 U.S.C. §§ 1331 and 1337.

11. Venue is proper in this District pursuant to Section 27 of the Exchange Act, and 28 U.S.C. § 1391(b). All or a substantial part of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in this District and Tellabs

maintains its chief executive offices and principal place of business within this District.

12. In connection with the wrongs complained of herein, Tellabs, directly or indirectly, used the means and instrumentalities of interstate commerce, including the United States mails and interstate telephone communications, and the facilities of the national securities markets.

THE PARTIES

Plaintiffs

13. On September 27, 2002, the Court appointed Makor Issues & Rights Ltd. ("Makor") Lead Plaintiff pursuant to 15 U.S.C. § 78(u)-4. Makor purchased Tellabs common stock at artificially inflated prices during the Class Period and was damaged thereby.

14. Additional Plaintiffs are the following individuals who also purchased Tellabs common stock at artificially inflated prices during the Class Period and were damaged thereby:

a. Chris Broholm

b. Richard LeBrun

c. David Leehey

d. Patricia Morris

15. Certifications for Plaintiffs previously were submitted to the Court.

Defendants

16. Defendant Tellabs is a Delaware corporation with its principal executive offices located at One Tellabs Center, 1415 West Diehl Road, Naperville, Illinois 60563.

17. Defendant Michael J. Birck ("Birck") has been a Tellabs Director since 1975 and has served as Chairman of

the Board since September 18, 2000. Birck served as Tellabs' Chief Executive Officer and President from 1975 through September 1, 2000, and was a founder of the Company. During the Class Period, while in possession of adverse undisclosed information about the Company, Birck sold 80,000 shares of common stock for $5,183,150 in illegal insider trading proceeds.

18. Defendant Brian J. Jackman ("Jackman") has served as a Tellabs Director since 1993. He served as Tellabs' President of Global Systems and Technology and Executive Vice President from 1998 to September 1, 2001. As President of Global Systems and Technology at Tellabs, Jackman was responsible for all product divisions worldwide.

19. Defendant John C. Kohler ("Kohler") served as Tellabs' Senior Vice President of Global Business Operations (Global Manufacturing) from February 2000 to March 10, 2003, and was Tellabs' Vice President of Global Manufacturing from 1992 - 2000. During the Class Period, Kohler was in charge of manufacturing, including procurement, manufacturers, repairs, returns, warehousing, the building and storage of products, and the purchase of parts. During the Class Period, while in possession of adverse undisclosed information about the Company, Kohler sold 7,500 shares of common stock for $484,968 in illegal insider trading proceeds.

20. Defendant Richard C. Notebaert ("Notebaert") served as a Tellabs Director from April 19, 2000 to June 17, 2002, and as Chief Executive Officer and President of Tellabs from September 18, 2000 to June 17, 2002,

21. Defendant Robert W. Pullen ("Pullen") served as Tellabs' Senior Vice President and General Manager of Optical Networking from August 2000 to February 2, 2002, and, in that capacity, had responsibility with respect to the TITAN series products at issue in this action.

22. Defendant Joan E. Ryan ("Ryan") served as Tellabs' Executive Vice President and Chief Financial Officer from February 2, 2000 to February 7, 2003.

23. The Individual Defendants, as senior executive officers and directors of Tellabs, were controlling persons of the Company, at all relevant times. Each exercised his power and influence to cause Tellabs to engage in the fraudulent practices complained of herein.

24. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the materially false, misleading, and incomplete information conveyed in the Company's public filings, press releases, and other public statements, as alleged herein, are the collective actions of the narrowly defined group of Defendants identified above. The above officers and directors of Tellabs, by virtue of their high-level positions with the Company and "hands on" management style, directly participated in the management of the Company, were directly involved in the day-to-day operations of the Company at the highest levels, and were privy to confidential proprietary information concerning the Company. Said Defendants were involved in the fraudulent activities herein alleged and were also involved in drafting, producing, reviewing, and disseminating the materially false and misleading statements and information alleged herein; were aware, or recklessly disregarded, that the materially false and misleading statements were being issued regarding the Company; and approved or ratified these statements, in violation of the federal securities laws.

25. As officers and directors and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate promptly accurate, complete, and truthful information with respect to the Company and to correct any previously-issued

statements that had become materially misleading or untrue, so that the market price of the Company's publicly-traded securities would be based upon truthful, complete, and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

26. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public statements and filings complained of herein and were aware of, or were severely reckless in disregarding, the misstatements contained therein and omissions therefrom, and were aware of, or recklessly disregarded, their materially false and misleading nature. Because of their Board membership and executive and managerial positions with Tellabs, and "hands on" management of the Company, the Individual Defendants had access to the adverse undisclosed information about the Company and knew, or were severely reckless in not knowing, that these adverse facts rendered the positive representations made, issued, or adopted by the Company materially false and misleading.

27. The Individual Defendants, because of their positions of control and authority as officers and directors of the Company, were able to and did control the content of the various SEC filings, press releases, and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports, releases, and statements detailed herein and is therefore primarily liable for the misrepresentations and misleading statements contained therein.

28. Each of the Defendants is liable as a primary participant in a fraudulent scheme and course of business that

operated as a fraud and deceit on purchasers of Tellabs common stock, by disseminating materially false and misleading statements and concealing material adverse facts. The scheme: (1) deceived the investing public as to the true value of Tellabs common stock; and (2) caused Plaintiffs and other members of the Class to purchase Tellabs common stock at artificially inflated prices that did not reflect its true value.

TELLABS PRODUCTS AT ISSUE

29. During the Class Period, Defendants' misleading statements and activities related to Tellabs' flagship TITAN 5500 systems, and two purportedly newly-launched products, the TITAN 6500 and SALIX 7750.

30. TITAN 5500: In 2000, optical networking systems accounted for approximately 64% of Tellabs' sales, and the TITAN 5500—Tellabs' principal seller in this category—was the Company's "flagship," according to Tellabs' 2000 Form 10-K. Tellabs' 2000 Annual Report explains that its TITAN 5500 systems are "digital cross-connect systems" —optical networking products that "help direct different types of communications traffic across wired and wireless networks." Tellabs' 2000 Annual Report describes a "digital cross-connect" as "[a] specialized high-speed data channel switch, which connects transmission paths based on network needs (rather than call by call). Digital cross-connects manage and route network traffic, and combine, consolidate and segregate signals to maximize efficiency." According to the 2000 Annual Report, features of the TITAN 5500 include access, transport, and management for fiber optic networks. Fiber optic networks are a critical part of overall voice and data communications infrastructures. Tellabs' 2000 Annual Report identified the TITAN 5500 systems as Tellabs' "core products."

31. TITAN 6500: According to Tellabs' 2000 Annual Report, the TITAN 6500 is a new "multiservice transport

switch" that "emerged from [Tellabs'] laboratories in 2000." "Multiservice" means capable of simultaneously transporting a variety of signal types.

32. SALIX 7750: According to Tellabs' 2000 Annual Report, the SALIX 7750 ("SALIX") is a "next-generation switch" that "enables service providers to move voice traffic seamlessly onto data networks while supporting voice services such as three-way calling and messaging." Tellabs' 2000 Annual Report, describes a "next-generation switch" as one that "performs advanced data switching in addition to the same features as local central office and tandem long-distance switches."

TELLABS' CUSTOMERS

33. During the Class Period, Tellabs' largest customer for its "flagship" Titan 5500, and largest customer overall was Verizon. SBC was also one of Tellabs' most significant customers. Tellabs' 2000 Form 10-K stated:

> In 2000, sales to Verizon Communications, Inc. (Verizon) accounted for approximately 19.1% of consolidated net sales. In 1999, sales to SBC Communications, Inc. (SBC) and sales to Verizon accounted for approximately 11.5% and 11.0% of consolidated net sales, respectively. In 1998, sales to Verizon and SBC accounted for approximately 13.9% and 12.6% of consolidated net sales, respectively. No other customer in 2000, 1999, or 1998 accounted for more than 10% of consolidated net sales.

CS-11, CS-12, CS-14, and CS-22 confirmed that Verizon was Tellabs' largest customer for the TITAN 5500 in 2000 and 2001. Tellabs often sells its products through distributors. CS-11 confirmed that Tellabs' largest distributors, during the Class Period, were Telcobuy.com, Lexicom, and Walker Communications, Inc.

TELLABS' DEMAND AND PRODUCT PROBLEMS—AND DEFENDANTS' DECEPTIVE PRACTICES TO CONCEAL THOSE PROBLEMS

Demand For The TITAN 5500 And Other Tellabs Products Fell In 2000-2001

34. Contrary to Defendants' public representations during the Class Period, as detailed below, and unbeknown to investors, by the beginning of the Class Period, at the end of 2000, demand for Tellabs' key products, including the TITAN 5500—Tellabs' "best seller"—was slowing substantially. Thus:

35. A Tellabs installations supervisor, CS-12, related that, in late 2000, there was a significant reduction (roughly 25%) in orders for the TITAN 5500 from Verizon (Tellabs' largest customer). Moreover, CS-22, a former Tellabs operations manager, reported that, in January 2001, orders from Verizon significantly declined by roughly 50%, because Verizon was overloaded with TITAN 5500 products.

36. According to CS-13, a Tellabs sales manager, customers in Latin America and Central America did not want the TITAN 5500.

37. CS-14, a Tellabs materials manager who was at Tellabs throughout the Class Period, reported that orders from every single TITAN 5500 customer declined while CS-14 was at Tellabs.

38. CS-15, a Tellabs manager in the business development area, related that sales of Tellabs' products were declining by early 2001. CS-15 also reported that customers believed Tellabs products to be of poor quality.

39. A former Tellabs marketing strategy executive, CS-16, reported that a study performed for Tellabs by an independent research firm, Probe Research, which cost Tellabs $100,000, and was completed in or about early 2001,

showed a steep drop in the number of T1 circuits required in the market. CS-16 explained that T1's were the main source of demand for Tellabs' TITAN 5500 systems. In or about early 2001, an internal report was prepared by Tellabs' marketing strategy department that accurately concluded that, as a result of the decline in T1's, Tellabs' revenue from the TITAN 5500 would decline by approximately $400 million (a huge and extremely significant decline given that, in the same time frame, the TITAN 5500 accounted for approximately $1.8 billion to $2.0 billion of Tellabs' approximately $3.4 billion of reported revenue in 2000 and that Tellabs had no other products to take up the slack). According to CS-16, this report was discussed at marketing strategy meetings, and was widely circulated to at least 10 executives, including individuals who reported directly to Defendants (such as Harvey Scull, the head of the marketing strategy department, who reported directly to Defendant Birck).

40. Tellabs' internal quarterly reports—prepared by Tellabs' finance department and viewed by CS-23—showed declining demand in the third and fourth quarters of 2000 for a variety of Tellabs' products, including the TITAN 5500, Tellabs' most significant product. Quarterly reports concerning the profitability of Tellabs' merchandise, which could be accessed on the Tellabs database system, showed a decline in customer demand for the TITAN 5500 in March 2001, according to CS-17.

41. According to a former Tellabs customer manager, CS-25, Tellabs' customers were not buying as early as November 2000 and Tellabs was not busy throughout the Class Period. According to CS-25: "it got slower and slower."

42. Former Tellabs marketing manager CS-1 confirmed that Tellabs had excess TITAN 5500s on hand in late 2000 / early 2001 due to lack of customer demand because Tellabs had overloaded its customers.

43. Former Tellabs executive account manager CS-2 confirmed that, due to Verizon budget cuts, including cuts in capital expenditures and other expenditures affecting network equipment purchases from companies such as Tellabs during the fourth quarter of 2000 and throughout 2001, Verizon failed to execute millions of dollars of projected TITAN 5500 orders, including new systems, plugs, and cards.

44. The decline in demand also was confirmed by a major distributor of parts to Teilabs. According to CS-26, a Tellabs team project manager for a product distributor to Tellabs, Tellabs suddenly stopped taking parts for its products in the beginning of 2001. The parts distributor thought Tellabs knew it was in trouble by about February 2001. By early April 2001, the distributor started having problems obtaining payment from Tellabs, resulting in a mounting debt that reached $10 million over the next six months.

45. According to CS-1, Tellabs had "tons" of excess TITAN 5500s and other products on hundreds of racks in Tellabs' Bollington warehouse. Some systems were there for six months to a year. Former Tellabs marketing manager CS-1 also confirmed that Tellabs had excess TITAN 5500s on hand in late 2000 / early 2001 due to lack of customer demand, resulting from Tellabs overloading its customers.

Contrary to Defendants' Portrayal, the TITAN 6500 Suffered From Weak Demand, Weak Customer Acceptance, Severe Development Delays, and Failed Customer Trials

46. As detailed below, during the Class Period, Defendants touted Tellabs' TITAN 6500 while failing to disclose to investors that these products were not being accepted or purchased by customers, were way behind in development, were failing evaluations, had defects that would not be resolved until well after the Class Period, and were not even close to being saleable products until significantly after the Class Period. Individual Defendants were directly involved

with these issues, including visiting customers to deal with the TITAN 6500's problems. For example:

47. CS-16, a former Tellabs marketing strategy executive, related that customers thought that Tellabs' TITAN 6500 products had "too big a footprint" (took up too much space) in comparison to the amount of bandwidth capacity the products had. Customers explained that competitor Ciena's product provided more bandwidth for the amount of floor space Tellabs' TITAN 6500 took up. CS-16 related that Tellabs repeatedly attempted, without success, to sell its TITAN 6500 to major customers Verizon, BellSouth, and SBC.

48. According to CS-19, a former high level Tellabs sales executive, Tellabs did not do much with the TITAN 6500, and, by October 2001, some four months after the close of the Class Period, there had been only a couple of trials in a couple of locations. According to CS-5, who was involved in Tellabs distribution, Tellabs did not make actual sales of the TITAN 6500 or even have the product in its warehouse until after mid-September 2001. Similarly, according to a former Tellabs project manager, CS-9, Tellabs played up the TITAN 6500 when it had not actually sold one yet; and the TITAN 6500 was still *not* a released, saleable product even two months *after* the end of the Class Period. Former Tellabs consultant CS-27 also confirmed that the TITAN 6500 was not approved by the RBOCs (Regional Bell Operating Companies).

49. CS-6 confirmed that, at least since September 2000, Sprint network traffic had been dropping, and thus demand for the TITAN 6500 product was dropping. According to CS-6, the TITAN 6500 was meant for very high bandwidth, and the customers needed to have growth to support it; consequently, Sprint decreased its orders after an initial deal that Defendants touted.

50. In addition, according to CS-1, a former Tellabs marketing manager, senior management, including Defendant Pullen (then Senior Vice President of Product Development), was aware of TITAN 6500 production problems and that the product was failing evaluations. Moreover, as CS-1 reported, Pullen made numerous visits to TITAN 6500 customers in connection with failed evaluation problems.

51. According to former Tellabs executive account manager, CS-2, Tellabs executives got very aggressive with trying to push the TITAN 6500 (including pushing sales personnel to do everything they could to sell the product) and they just did not have a product. CS-2 never closed any sales of the TITAN 6500. CS-2 also explained that Tellabs was having a very difficult time testing the TITAN 6500; and that, in the fourth quarter of 2000 and first quarter of 2001, Tellabs product managers stated they were in the process of fixing the TITAN 6500's defects and hoped to release the product in the first quarter of 2002.

52. As CS-3, a high-level Tellabs sales executive, explained, the TITAN 6500 was almost two years late to market, which annoyed customers and resulted in Tellabs probably losing $50 million to $60 million of initial sales that it would have had if the product had been on time. Due to the lateness of Tellabs' product, it lost business to a French competitor, Alcatel, even though Alcatel had an inferior broadband cross-connect product, according to CS-3.

53. According to CS-3, the slow pace of development of the TITAN 6500 was evident throughout the entire development process in 1998, 1999, 2000, and 2001, and thereafter. Defendants Jackman and Pullen, who were both actively involved in product development, and other development personnel knew that the TITAN 6500 was not ready for disbursement despite Defendants' public announcements, according to CS-3. As explained by CS-3, Tellabs introduced the TITAN 6500 in 2000 prior to its being ready; however,

customers realized that the TITAN 6500 "was not even close to being ready" when they evaluated it in their labs. According to CS-3, Notebaert also knew about the TITAN 6500 problems.

Defendants Misleadingly Portrayed To The Public Tellabs' Sprint/TITAN 6500 Deal To Give A Misleading Impression Of Demand For Its TITAN 6500 Product

54. Defendants touted a $100 million deal with Sprint for the TITAN 6500 to foster a false impression that there was demand for the product. Defendants concealed that Sprint had made this deal only to fulfill a pre-existing financial obligation concerning a different product, and that further orders would *not* be forthcoming.

55. According to two former Tellabs marketing managers, CS-1 and CS-8, and a former Tellabs market strategy executive, CS-16, Sprint entered into the TITAN 6500 agreement *to satisfy an already-existing $100 million commitment*, which arose when Sprint backed out of a previous deal to purchase Tellabs' AN-2100 media gateway. In truth, Sprint was *not* planning to buy any more TITAN 6500 products from Tellabs once Sprint satisfied its pre-existing open commitment. Yet, Defendants deceptively presented the Sprint sale as an indication that there was a growing market for the TITAN 6500.

Tellabs' SALIX Technology Could Not Be Commercialized

56. Defendants glowingly portrayed Tellabs' supposed "launch" of its new "leading edge" SALIX technology in 2000 when, in fact, the SALIX technology was both unfinished and outmoded. The technology required massive infusions of cash and personnel to commercialize--which Tellabs did not provide, and was in any event outmoded technology.

57. According to a high-level SALIX/Tellabs operations executive, CS-18, there were serious technical defects with the SALIX product—and Tellabs knew from "day one" that SALIX's staff of 50 would need to be increased to at least 300 to successfully commercialize the SALIX product. However, CS-18 explained that Tellabs did not invest more money and personnel in the product (as Tellabs originally committed to do), and thus the product could not be commercialized. CS-18 explained that SALIX failed because of the downturn in the market and because the product could not be commercialized. According to CS-18, Level 3 was the only SALIX customer of significance. The same source explained that Defendant Kohler knew exactly what was being purchased by customers, because Tellabs had to buy material for the product and because Kohler attended meetings at the Level 3 customer site in Colorado and made presentations to the customer. According to CS-18, the "bottom line" was that Tellabs executives knew exactly what was going on concerning SALIX's customer. According to the same source, Tellabs executives were well aware of the customer's business potential, and had "first hand" knowledge from attending meetings at the customer's site.

58. CS-19, a former high level Tellabs sales executive, also confirmed that Level 3 was virtually the only customer for the SALIX product, and that Tellabs reversed the revenue from the one or two deals it had for the SALIX product (which were with Level 3) when Tellabs discontinued the SALIX business.

59. CS-16 reported that the SALIX technology was not suitable for the market.

60. In a "town hall" meeting in or about late April 2001 at Tellabs' Lisle office attended by roughly 50 to 100 employees, Notebaert conceded that the SALIX technology was not current technology, and that there were other technologies that superceded it, according to CS-9, a former Tellabs

project manager. CS-6 confirmed that Notebaert made the decision to kill the SALIX product.

61. Moreover, CS-6 explained that the SALIX product required "second party software" that Tellabs did not own and that the software supplier was purchased by a competitor, causing problems for Tellabs.

Defendants Engaged In Undisclosed Illegitimate Sales and Channel Stuffing Practices To Falsely Portray Product Demand

62. To falsely portray substantial and growing revenues and demand, Defendants knowingly engaged in undisclosed extraordinary and illegitimate sales practices and "channel stuffing" of Tellabs' primary product, the TITAN 5500. As Defendants knew would occur, this resulted in drastically reduced sales and huge customer returns of unwanted merchandise in early 2001 and thereafter. Other illicit (and undisclosed) sales practices used by Defendants to create a false picture of robust demand included writing orders for customers for products that the customers did not want, and back-dating sales. Defendants also gave customers significant "incentives" to take merchandise, which belied Defendants' false portrayals of strong demand for Tellabs' products. Such incentives, which were concealed from the investing public, were excessive, unusual, and departed from ordinary business practices. Defendants' reliance on such deceptive devices to foster an illusion of demand provide further confirmation that demand for Tellabs' products was, in fact, declining and operated to deceive the investing public concerning the true state of Tellabs' business.

63. According to CS-3, a high-level Tellabs sales executive, Tellabs employees actually wrote purchase orders for customers for products that the customers had not ordered. Moreover, according to CS-3, Tellabs' Verizon team used channel stuffing as a strategy.

64. Tellabs' channel stuffing of the TITAN 5500 product in late December 2000 was of an "extraordinary" magnitude, according to CS-6, a former Tellabs senior business manager.

65. CS-21, a former Tellabs sales director, noted that sales of the TITAN 5500 reached a peak in 2000 (when Tellabs shipped off premises absolutely everything it could get out although nobody needed the product), then noticeably declined in early 2001, and continued to plummet through 2001.

66. A former Tellabs marketing manager, CS-8, also stated that Tellabs definitely channel-stuffed and loaded up distributors "big and fat" at the end of the fourth quarter 2000 (especially in December). According to CS-8, distributors were upset and later returned the inventory.

67. CS-6, a Tellabs senior business manager, explained that Telcobuy.com (a VARS that distributed to SBC) and Verizon were two of Tellabs' customers victimized by channel stuffing. Channel stuffing in December 2000 involving SBC alone amounted to roughly $20 million in revenue. According to CS-6, Tellabs paid VARS, including Telcobuy.com, a certain percentage, 5% or 10%, to hold inventory, an abnormal practice in the industry. Telcobuy wanted to return the product because it realized that it could not sell the product to SBC and that Tellabs had jammed Telcobuy. A lot of the inventory, approximately $10 to $15 million, came back in 2001. CS-6 also reported that Tellabs' executives approved this channel stuffing; that Defendant Notebaert worked directly with Tellabs' sales personnel to channel stuff SBC; and that Tellabs' chief financial officer, Defendant Ryan, also knew about the channel stuffing.

68. Similarly, a former Tellabs customer service accounts representative, CS-10, stated that Tellabs sent customers product (especially the TITAN 5500) that the customers (including Lexcom, Verizons, and Telcobuy) did not want. According to CS-10, the customers returned the TITAN 5500

merchandise as soon as it showed up at their door. CS-10 also reported that often the customer's site was not ready for product; yet Tellabs delivered the product anyway to make its revenue numbers. This customer service representative (CS-10) also reported processing millions of dollars of returns from customers of unwanted product, mostly the TITAN 5500. CS-10 also stated that returns were so heavy during January and February 2001 that Tellabs had to lease extra storage space to accommodate all the returns; returns in January, February, and March 2001 were in the millions of dollars. Verizon and Telcobuy were heavily returning product, according to CS-10.

69. According to another former Tellabs marketing manager, CS-1, Tellabs got "creative" to make the numbers at the end of the fourth quarter of 2000 and early 2001, including offering customers discounts of as much as 10% to 20% and other incentives (which were not disclosed to the investing public), shipping to distributors (including shipping the TITAN 5500 to distributor Lexcom in early 2001) without having agreement by the ultimate customer to purchase the product, as is customary in the industry, which resulted in returns the subsequent quarter.

70. In addition, according to CS-1, Defendants also engaged in improper practices to meet earnings expectations, such as backdating sales for the TITAN 5500—pulling sales to larger customers such as SBC and Sprint from the first quarter 2001 into the fourth quarter of 2000 to make the numbers.

71. According to CS-3, a high-level Tellabs sales executive, Verizon unsuccessfully tried to return a lot of product. Verizon's Chairman Charles Lee even called Tellabs to complain about channel stuffing. As CS-3 also maintains, Tellabs distributors Telcobuy.com and Lexcom were also victimized by Tellabs' channel stuffing. According to CS-3, Telcobuy.com tried to return product to Tellabs during late

1999 through late 2000. Tellabs offered Telcobuy very generous credit terms (90 days net)—much more than normal (30 days net)—to induce Telcobuy to keep the products. Tellabs also gave Telcobuy additional discount incentives to buy TITAN 5500 plugs in late 1999 through late 2000.

72. CS-5, who was involved in Tellabs distribution, confirmed that Tellabs sent customers an extraordinarily tremendous amount of product during the last 6 weeks of the fourth quarter of 2000, requiring Tellabs distribution employees to work 16 hours a day, seven days a week, and the Company still needed more distribution help. CS-4, a Tellabs shipping supervisor, also confirmed that at the end of each quarter, particularly the fourth quarter of 2000, Tellabs distribution personnel worked double shifts to push out product, from 6:00 a.m. until 12:00 midnight. But as soon as the first quarter of 2001 hit, Tellabs did not have orders, there was no more work, and Tellabs distribution employees were told to go home early, according to CS-5.

DEFENDANTS' MATERIALLY FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD

73. On December 11, 2000, the first day of the Class Period, Defendants issued a press release announcing a multi-year sales agreement with Sprint for the TITAN 6500. The press release stated:

> Tellabs today announced a multiyear agreement with Sprint for the TITAN 6500 multiservice transport switch, which will help the carrier manage exponential growth of broadband traffic while lowering its costs. The agreement is expected to be valued at more than $100 million over the life of the contract.
>
> * * *
>
> *The TITAN 6500 system is available now.* [Emphasis added.]

74. Defendants' representations regarding the TITAN 6500 and the Sprint deal in the press release quoted in the previous paragraph were materially false and misleading in that:

a. in truth, the TITAN 6500 was not then currently available;

b. production of the TITAN 6500 was far behind schedule and the product was not ready for release;

c. the TITAN 6500 was failing customer lab evaluations;

d. the TITAN 6500 was inferior to comparable products offered by Tellabs' competitors; and

e. Sprint's purchase of the TITAN 6500 was merely to satisfy a pre-existing purchase obligation that arose when Sprint canceled another product purchase, and would not result in continued sales.

75. Also, on December 11, 2000, Defendants held a conference with analysts in New York City.

76. Robert W. Baird & Co., Inc. ("Baird") issued a summary of Defendants' December 11, 2000 analysts' conference in a December 12, 2000 "Research Note," which reported the following:

* The most significant announcements of the conference were the availability of [Tellabs'] TITAN 6700 optical switch, its first purchase order for the TITAN 6100, and the announcement of a multi-year $100+ million contract with Sprint for the TITAN 6500. They expect this revenue to be accrued linearly over the next four years.

* Tellabs also reiterated its confidence in the telecom-spending environment and reconfirmed consensus growth forecasts for Q4 [2000] and 2001.

* New CEO Richard Notebaert presented first during the conference and outlined the tremendous opportunity for Tellabs in international markets, as well as the expected continuing growth of the TITAN 5500, as well as its new optical-networking and next-generation switching initiatives.
* Tellabs believes that these new optical-networking platforms expand its addressable market by nearly sevenfold to $20+ billion by 2003.
* Tellabs also outlined its outlook for its Salix next-generation soft-switching platforms where the addressed market is expected to grow to over $1 billion by 2003 and accelerate to $24 billion in 2008.
* Tellabs also reiterated its growth forecast of 30% in revenue and EPS for 2001.
* Consequently, as a result of these new and developing product initiatives and Tellabs expanding addressable markets, we expect Tellabs to maintain an above-average growth rate for at least the next 2 to 3 years.

Baird thereupon reiterated its "strong buy" rating on the Company's stock.

77. Other securities analysts following Tellabs common stock also reported on Defendants' positive representations at the December 11, 2000 conference:

a. UBS Warburg issued a report describing Defendants' fourth quarter 2000 projections:

> Tellabs maintained its guidance for 4Q of 2000 and all of 2001. In doing so, the company indicated that demand for its TITAN 5500 product line remains solid in 4Q and there is visibility for at least two years (if not more) of ongoing good growth for this product.

Estimating sales growth of about 30% in 2001, UBS reiterated its "buy" rating on the Company's stock.

b. A Morgan Stanley report focused on the new line of products announced by Tellabs and Defendant Notebaert's assertion that there was "strong demand for Tellabs' products despite capital expenditure fears by the carriers." Morgan Stanley forecasted that new product sales would contribute about $30 million of revenue in 2000 and at least $100 million in 2001, raised its price targets to $75, and maintained its "outperform" rating on the Company's stock.

c. Merrill Lynch's report on Tellabs' December 11, 2000 analyst meeting characterized the meeting as "upbeat," and stated that Tellabs "Management reiterated its forecast for 30% top and bottom line growth for 2001" and that Tellabs' "cash engine, the TITAN 5500, is still humming away." The Merrill Lynch report also stated: "[T]he strength of the TITAN 5500 gives us reasonable visibility into the near term outlook, even despite some of the industry concerns on capital spending."

d. ABN AMRO, Inc. ("ABN") reported Defendant Pullen's comment that the "*TITAN 5500 remains the workhorse of the group and is expected to see strong growth for the next 2-3 years.*" (Emphasis added.) Relying on Defendants' statements, ABN raised its price target and earnings per share and reiterating its "buy" rating on the Company's stock.

e. Robinson-Humphrey's report on Defendants' December 11, 2000 conference stated:

> Tellabs' softswitch has also taken a jump start, with six trials currently underway at a handful of customers. *Management indicated that the trials are progressing well, especially at one large customer. . . .*

(Emphasis added.) Robinson-Humphrey also reiterated its "buy" rating on Tellabs stock based on the Defendants' assurances regarding the TITAN 5500 and the SALIX product lines.

78. On January 22, 2001, the day before Tellabs was to announce its fourth quarter 2000 earnings results, citing its high degree of confidence in the demand for Tellabs' existing and emerging products, and reflecting Defendants' guidance, Lehman Brothers issued a favorable research report forecasting 2001 revenues of $4.368 billion, an increase of 30%, and earnings per share of $2.25, an increase of 32%.

79. These and other positive analysts' reports issued during the Class Period confirm that the market was, in fact, misled by Defendants' false and misleading representations and that those representations were material.

80. Defendants' positive representations at the December 11, 2000 analyst conference, as reported by conference attendees, as set forth above, were each materially false and misleading for the reasons set forth in paragraph 74 above and for the following additional reasons, among others:

a. in truth, Tellabs was experiencing a substantial decline in the demand for its TITAN 5500 products;

b. in an effort to conceal the declining demand for the TITAN 5500, Defendants were engaging in illegitimate sales practices and a "channel stuffing" scheme, whereby the Company was:

(1) over-supplying customers with unwanted products by "stuffing" distribution channels;

(2) writing orders for products the customers did not want;

(3) improperly backdating orders; and

(4) capturing revenue from subsequent quarters by offering unusual and extraordinary discounts and incentives to customers to entice them into purchasing products during fourth-quarter 2000;

c. These deceptive sales and "channel stuffing" practices, which were designed to foster a false illusion of demand, resulted in Tellabs' customers being over-inventoried with TITAN 5500 products and caused them to decrease orders for those products in the future;

d. because of an already contracting market for telecommunications products, customers were reducing and would continue to reduce their orders for Tellabs products, including the TITAN 5500, throughout 2001;

e. the SALIX technology could not be commercialized and was already outdated and superceded; and

f. in light of the foregoing, Defendants' forecasts of revenue and earnings growth lacked any reasonable basis and were contradicted by adverse facts known to Defendants.

81. On January 23, 2001, Defendants issued a press release announcing Tellabs' financial results for the fourth quarter of 2000:

> *Strength in Tellabs' core business drove record sales and earnings in the fourth quarter of 2000.* Fourth-quarter 2000 sales totaled $1,018 million, up 42% from $716 million in 1999. . . .
>
> Fourth-quarter net income was $232 million, up 41% from $165 million a year ago, and diluted earnings per share rose to 56 cents, up 44% from 39 cents a year ago, before one-time items. Including one-time items, fourth-quarter net income was $238 million and diluted earnings per share were 57 cents.
>
> * * *
>
> *"To keep up with robust growth in communications traffic, customers are buying more and more Tellabs equipment-fueling our records results and our first $1 billion quarter,"* said Richard C. Notebaert, Tellabs chief executive officer and president. *"Customers are*

embracing the five new products we launched last year, opening new opportunities for Tellabs to grow."

(Emphasis added.) With respect to the Company's optical networking division, the press release stated in pertinent part as follows:

> Optical Networking—For the fourth quarter of 2000, sales of optical networking products [including the TITAN 5500] amounted to $641 million, up 49% over a year ago. In 2000, the Tellabs optical networking group shipped more than 14 million DS1-equivalent ports.
>
> During the quarter, Tellabs' shipped its first TITAN 6100 and TITAN 6500 systems for customer deployment. *In December, Tellabs announced that it would supply the TITAN 6500 system to Sprint under the terms of a $100 million multiyear agreement.*

(Emphasis added.)

82. On the same day, January 23, 2001, Defendants, including Notebaert, Ryan, and Jackman, held a conference call with analysts to discuss Tellabs' fourth quarter 2000 results. Notebaert stated:

> *This was a great quarter and fitting end to a wonderful year. Tellabs not only achieved record sales and profits in the fourth quarter [of 2000], we also set the stage for sustained growth with the successful launches of several products, many of those long anticipated.* First let me hit some of the highlights from our fourth quarter. *For the first time ever, we had sales of over $1 billion. I mean it's just fantastic.* All of us at Tellabs are still buzzing about that. It's a great accomplishment for us. *Customers are embracing our products. We announced a $100 million plus agreement with Sprint for the 6500. Our first customer success with this new product.* We shipped our first TITAN 6500 and our first TITAN 6100 in the forth [sic] quarter. [Emphasis added.]

83. During the same conference call, Defendant Joan Ryan stated:

> *Now, heading into 2001, we have constructed our forecast by balancing overall economic conditions against direct input from our customers about the products we sell. All indications are that Tellabs will continue to sustain our strong record of growth.* [Emphasis added.]

84. During the same call, in response to questions seeking updates on the TITAN 6500, Defendant Notebaert also stated:

> *On the 6500 demand for that product is exceeding our expectations* and I'm just gonna say a word and pass it to Brian. We had spent and we'll meet again tonight, a large amount of time working on our ability to create or manufacture enough product to meet customer demand. *Demand is just, is huge for this product.* [Emphasis added.]

Notebaert further asserted that "[i]t's not all tied to Sprint although Sprint is obviously the earliest and most visible customer."

85. In addition, on the same day, in an interview with Eric Schatzker from the Bloomberg News, on the *Bloomberg Forum*, Defendant Notebaert falsely asserted that Telltabs was not being seriously affected by the slowing telecommunications economy:

Schatzker: Okay, let's talk about your fourth quarter earnings. Came in line with expectations, earnings of 56 cents a share, and I think the big story here, really, is that's that a bit of a relief to a lot of investors who'd expected, who were fearful that the numbers might miss forecast given all the concerns about a slowdown in telecommunications spending, and I guess they'd also have to be encouraged by a reiteration or a

confirmation of your outlook for 2001, which includes growth and earnings per share, and revenue of more than 30%. Why is it that you guys seem to be holding up so well, when some of the other companies that hope to take your business away, are faltering?

Notebaert: Well, I think it goes back to our customers. I mean, everything starts with your customer. *What Tellabs has is a targeted product set that meets a customer need.* And the customer's business is growing in units, in traffic, and so our product helps them be more efficient, helps them in its scalability, and it really provides them a path to future converged networks. *And that's recognized by the customer, and they showed that again this quarter, and I'm a little surprised at the performance of our stock the last few weeks, because last quarter, this quarter, we've been solid, and we feel very, very good about the robust growth we're experiencing.* [Emphasis added.]

* * *

Schatzker: Sure. Actually, that leads me to another question, which is, we've heard over the last couple of weeks some companies in the same business you're in, or at least a similar business, companies like ABC Telecom, Nortel even, talk about how the slowing US economy was affecting their outlook and prompting them to pare back their 2001 forecast. How come that isn't really affecting you guys?

Notebaert: You know, the folks at Nortel, John Rothman and his team, have never invited me into their boardroom. So it would be inappropriate for me to comment about them, or about ABC.

Schatzker: Okay, fair enough, we can change it then, why don't you think you guys are, your company is feeling a pinch at all because of any slowdown that we might be seeing, or perceiving in the US economy?

Notebaert: I think it goes back to where I started. When you've got a product set that really creates efficiency, scalability, it leads the way to tomorrow's converged networks, but what you end up with is sustained growth. What would really—the only thing that would really change, really adversely affect a company like Tellabs, with its outstanding set, is if in fact the utilization of the network, of the Internet, in other words, people stop communicating either computer to computer with data, or by a voice . . .

86. Defendants' January 23, 2001 representations, as set forth in the foregoing paragraphs, were each materially false and misleading for the reasons set forth in ¶¶ 74 and 80 above, and for the following additional reasons, among others:

a. Tellabs' reported financial results for the fourth quarter and full year-2000 were the result of deceptive sales practices, including false and backdated orders and channel stuffing, and could not be sustained;

b. a market research study performed by Defendants and an outside research firm was accurately forecasting a significant additional drop in TITAN 5500 sales;

c. Tellabs was experiencing massive product returns; and

d. contrary to Defendants' claims, direct input from Tellabs' customers indicated that Tellabs could not sustain strong growth.

87. Following these positive announcements, securities analysts following Tellabs again issued highly positive reports based on Defendants' guidance and representations. For example:

a. On January 23, 2001, Merrill Lynch reiterated its "long term buy" rating.

b. That same day, Robinson-Humphrey also reiterated its "buy" rating, noting that "management had upheld year-end guidance for 2001, relieving many investors apprehensions."

c. On January 24, 2001, Morgan Stanley issued a report reiterating its "outperform" rating and establishing a new price target of $90 (up from its previous price target of $75) for Tellabs' shares. Noting that the Optical Networking group sales grew 49% to $641 million, up from the $429 million in fourth-quarter 1999, and that "*sales of the TITAN products continued to fuel growth*" (emphasis added), Morgan Stanley adjusted its 2001 revenue estimate to $4.4 billion, up from its previous $4.3 billion estimate and revenue growth greater than 30%.

d. Deutsche Banc also issued a report on January 24, 2001, raising its 2001 estimates from $4.21 billion to $4.37 billion and maintaining its "buy" recommendation on Tellabs stock.

88. The following week, on January 30, 2001, Defendants issued another press release, announcing "a new suite of softswitches, the SALIX 7600 softswitch control suite, which helps carriers increase revenue by building low-cost networks that deliver innovative new services quickly." The press release states:

> "Tellabs is committed to delivering new next-generation switching solutions that will prepare the world's communications networks for tomorrow," said Brian Jackman, president of Global Systems and Technology at

Tellabs. "The SALIX 7600 suite brings together voice and data technologies to create a set of telepacket service applications that can help carriers grow profitably."

The SALIX 7600 suite is the latest addition to the award-winning SALIX 7000 series of products, which includes the SALIX 7700 gateway service switches and the SALIX 7400 integrated management suite. With the new SALIX 7600 suite, Tellabs has redefined the soft-switch market and *can now offer* integrated, comprehensive solutions to all carriers. [Emphasis added.]

89. Defendants' positive representations concerning the SALIX 7600 suite were materially false and misleading in that, among other things, the SALIX technology could not be commercialized and already was outdated and superceded.

90. On February 14, 2001, Defendants issued Tellabs' year 2000 Annual Report. The letter to stockholders contained therein, which was signed by Defendants Notebaert and Birck, stated:

Dear Fellow Stockholders:

Tellabs' growth is robust. In 2000 we exceeded our targets of 30% growth in sales and earnings for the fifth consecutive year. *Sales rose 46% to $3.4 billion.* Earnings per share increased 33% to $1.75. *Our results set new records* across the board, as you can see on the facing page.

* * *

Our markets and products hold significant potential for sustained growth.

Communications traffic is growing—that's no surprise. But you may be surprised to hear that most telephone calls and Internet sessions in the United States now flow through Tellabs equipment. That's how ubiquitous our products have become, because we bring customers

exactly the solutions they need. Looking through the eyes of our customers, Tellabs is ideally positioned in three high-growth markets—optical networking, broadband access and next-generation switching. Industry analysts forecast that these markets will grow sevenfold by 2003.

* * *

Our core business is performing well, which reflects customers' needs to handle traffic growth, add new services and migrate to future technologies without stranding assets. For example, *sales of our TITAN 5500 digital cross-connect systems soared 56% in 2000, our third consecutive year of accelerating growth.*

* * *

The new TITAN 6500 multiservice transport switch emerged from our laboratories in 2000, and customers are embracing it. Sprint, for example, announced a multiyear agreement for more than $100 million. And we're just getting started.

In all, we *launched* five major new products last year—the TITAN 6100 optical transport system, the FOCUS 6200 dense wavelength division multiplexer, the *TITAN 6500 multiservice transport switch*, the VERITY 3000 voice-quality enhancement series and the *SALIX 7750 next-generation switch*. All around Tellabs, you hear employees buzzing with excitement as they talk to customers about the potential of these products and how they will lead the way to tomorrow's converged networks.

* * *

Tellabs' best is yet to come.

(Emphasis added.)

91. Defendants Birck and Notebaert answered investors' frequently asked questions in the Annual Report, including the following:

> Q. *Your core business is built on the TITAN 5500—are you worried that this product has peaked?*
> A. *No. In 2000, TITAN 5500 revenues grew 56%, its best year so far.* Although we introduced this product nearly 10 years ago, *it's still going strong* because we keep adding new capabilities so it can do more and more for our customers. For example, last year we introduced a new TITAN 5500 system with 50% more capacity—enough to handle 1 million simultaneous Internet sessions. Now customers want an even larger TITAN 5500 system. That's why we believe there are many years of life ahead for this highly successful product.
> Q. How are you doing with introducing new products?
> A. . . . *The new SALIX 7750 next-generation switch positions Tellabs in a new category where we see a lot of opportunities. . . .*

(Emphasis added.)

92. Tellabs' 2000 Annual Report also contained a list of "reasons to invest in Tellabs," including:

> *High growth markets*—As demand for communications expands, the telecom equipment market is growing 20% to 25% as year. Tellabs is focused on attacking three market segments that offer major growth potential—and *we're delivering the right products* to meet customer needs in these market segments.
>
> Optical networking: Analysts foresee the pure optical segment soaring from $810 million in 2000 to $6 billion in 2003, as communications companies carry more and more traffic through fiber optic networks. To tap this growth, we offer a range of end-to-end solutions in our

TITAN and FOCUS series that can handle everything from a single voice circuit to a wavelength of light.

Next-generation switching: Analysts forecast growth from $76 million in 2000 to $1.2 billion in 2003. Next-generation switches offer communications companies a way to add new services quickly and incorporate new levels of efficiency into communications networks. *Our new SALIX next-generation switches have built an enviable track record in this fledgling market.*

(Emphasis added.)

93. Tellabs' 2000 Annual Report also discussed Tellabs' strategies:

We're building on our robust core business.

We see strong growth in our core business as we help customers meet increasing demand for bandwidth. Our core business is the foundation of our strong relationships with major customers, who rely on Tellabs to help them migrate to the networks of the future.

* * *

We successfully launched five new products in 2000.

For 26 years, Tellabs has focused on changing leading-edge technology into solutions that are viable for our customers. Our aim is to be a focused attacker that brings best-in-class products to market. We're furthering that aim with five *major new products we began selling last year*—the TITAN 6100 optical transport system, the *TITAN 6500 multiservice transport switch*, the FOCUS 6200 dense wavelength division multiplexer, *the SALIX 7750 next-generation switch* and the VERITY 3000 voice-quality enhancement series—which complement our core products.

(Emphasis added.)

94. In addition, Tellabs' 2000 Annual Report contained a "Management Statement of Financial Responsibility" signed by Defendants Birck, Notebaert and Ryan, that declared:

> *The financial statements of Tellabs, Inc., and Subsidiaries have been prepared under the direction of management in conformity with generally accepted accounting principles.* In the opinion of management, the financial statements set forth a fair presentation of the consolidated financial condition of Tellabs, Inc., and Subsidiaries at December 29, 2000, and December 31, 1999, and the consolidated results of its operations for the years ended December 29, 2000, December 31, 1999, and January 1, 1999.
>
> The Company maintains accounting systems and related internal controls which, in the opinion of management, provide reasonable assurances that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles, and that assets are properly accounted for and safeguarded.

95. Defendants' positive representations in the 2000 Annual Report, as set forth in the preceding paragraphs, were each materially false and misleading for the reasons set forth in ¶¶ 74, 80 and 86 above. In addition, the assertion in "Management Statement of Financial Responsibility," which was signed by Defendants Birck, Notebaert, and Ryan, that Tellabs' financials were fairly presented and conformed with GAAP was materially false and misleading in that the Company's financials were not fairly presented and did not conform with GAAP. Among other things, Defendants wrote fictitious orders and recorded revenues for sales customers never agreed to.

96. Defendants' positive announcements in December 2000 and January and mid-February 2001 had their desired

effect—the price of Tellabs common stock rose from a low of $58.4375 per share on December 11, 2000 to a Class Period high of $67.125 per share on February 5, 2001. It was during this period that three Individual Defendants sold personally-owned Tellabs common stock for proceeds of over $5.75 million:

a. On February 2, 2001, Defendant Kohler sold 7,500 shares of Tellabs stock at $64.66 per share, receiving proceeds of $484,000;

b. Between February 1, 2001 and February 6, 2001, Defendant Birck sold 80,000 shares of Tellabs common stock at prices ranging from $64.25 to $65.38 per share, receiving proceeds of $5,180,000; and

c. On February 15, 2001, Defendant Kozik sold 3,220 shares of Tellabs common stock for proceeds of $187,000.

97. Based upon the financial information and positive statements reported by Defendants, analysts maintained their buy recommendations for Tellabs stock. On February 21, 2001, Lehman Brothers analyst S.D. Levy, in response to disappointing results reported by Tellabs' competitor Nortel, explained why Lehman Brothers remained comfortable reiterating its "strong buy" rating on Tellabs:

> Halfway into the first quarter, Tellabs' revenues visibility remains as strong as when it ended the year with record order backlog. *We have spoken with multiple members of the management team in the past few days and each one said that after scrubbing the forecasts yet again, there was no change to its near- or long-term outlook.*

(Emphasis added.)

98. Similarly, one week later, on February 28, 2001, in response to a decline in stock price due to industry trends,

Lehman Brothers issued a favorable report on Tellabs, again reiterating its "strong buy" rating:

> The bottom line then is that we do not believe the fundamental situation for Tellabs has changed and not do we believe is it likely to get any worse because of the functionality of its products. New customer announcements should get the stock moving in the right direction and negative sentiment is unwarranted.
>
> Tellabs remains our number one investment idea.

99. Less than two weeks later, on March 7, 2001, Defendants issued a press release slightly modifying their previous guidance for the first quarter and full year 2001 and falsely reassuring the investing public that customer acceptance and demand for the TITAN 6500 remained strong and that the Company continued to expect 30% growth. The release stated in part:

> Tellabs announced today that it is lowering its revenue and earnings per share expectations for the first quarter 2001. *Tellabs projects first quarter sales in the range of $830 million to $865 million, compared with prior guidance of $865 million to $890 million. The company projects earnings per share in the range of 35 cents to 38 cents, compared with prior guidance of 39 cents per share.*
>
> The new guidance stems from continuing below-trend growth in Tellabs' CABLESPAN® business. In addition, the company is unable to recognize revenue from shipments of its new TITAN® 6500 system in the first quarter as originally anticipated, but *expects to recognize revenue from shipments of its new TITAN® 6500 system revenues in the second quarter. Growth in Tellabs' core optical networking business remains strong.*
>
> * * *

> *"Given the strong acceptance of the new TITAN 6500, we continue to target 30 percent growth in revenue and earnings for the year,"* said Richard C. Notebaert, Tellabs president and CEO. *"Demand for our new products is strong, and I am confident we have the right set of solutions to help our customers build tomorrow's converged networks."* [Emphasis added.]

100. The next day, on March 8, 2001, Defendants, including participants Notebaert, Ryan, and Jackman, held a conference call with analysts. Defendants again reassured investors that Tellabs was not experiencing the same negative effects of the industry slow-down as its competitors, and that its core business remained strong. For example, Defendant Notebaert opened the discussion by stating:

> Let me start by saying that our business is quite healthy; in fact, most of the fundamental trends that we talked about on our January call are intact. That is, and let me be a little more detailed, *demand for our core optical products, or our core networking products remains strong. . . . Interest in and demand for the 6500 continues to grow. . . . We continue to ship the 6100 and 6500 through the first quarter. We are satisfying very strong demand and growing customer demand. We are as confident as ever—that may be an understatement—about the 6500. . . . To put this into a bit more perspective, we still expect revenue and EPS growth for the quarter to exceed 30%. . . . In summary, demand for our products remains strong and there will be optimism around the new products that we've introduced. Tellabs will meet the adjusted revenue and earnings targets. . . .*

(Emphasis added.)

101. In response to a question posed by an analyst at UBS Warburg regarding the TITAN 6500 and why revenues were not recognized, Defendant Jackman stated:

> *There's nothing in the revenue recognition issue that should be construed to imply that the testing and the customer's acceptance of these systems are having difficulty.*

(Emphasis added.)

102. Similarly, in response to a question posed by an analyst from Deutsche Bank as to whether Tellabs was experiencing "any weakness there at all" as to TITAN 5500, Defendant Notebaert stated:

> *No, we're not. We're still seeing that product continue to maintain its growth rate; it's still experiencing strong acceptance. We're in the process of installing . . . a large number of frames that we shipped in the fourth quarter and business continues to grow as usual.*

(Emphasis added.)

103. Further, when asked if the Company had any concerns related to the lowered expectations of its competitors Nortel and Cisco, Defendant Notebaert falsely asserted that the Company was not experiencing the same adverse effects as its competitors:

> *we haven't Rotten any indication, I haven't gotten any indication from any of our major clients, major customers, of a downturn in the segment we're in, .*

(Emphasis added.)

104. Defendants' positive representations and assurances in the March 7 press release and the March 8 conference call set forth above, were materially false and misleading for the reasons set forth in ¶¶ 74, 80 and 86 above.

105. As a result of Defendants' positive assurances, securities analysts following the Company issued favorable reports and maintained their buy recommendations. For example, on March 8, 2001:

a. Deutsche Banc maintained its "buy" rating on Tellabs stock, noting that TITAN 5500 sales continue to be strong.

b. UBS Warburg reported that the Company would recognize revenue from the TITAN 6500 in the second quarter and maintained its "buy" rating on Tellabs stock.

c. Robinson-Humphrey issued a report maintaining its "buy" rating, stating that it believed Tellabs' core growth drivers were strong and that the TITAN 6500 had met strong market acceptance.

d. Similarly, reiterating its "strong buy" recommendation, Baird noted that the delay in recognizing revenue from the TITAN 6500 "does not in any way reflect lack of acceptance of the new product (TITAN 6500)."

106. Defendants' strong representations regarding the TITAN 5500 and 6500 products sent Tellabs common stock up from a low of $44.625 on March 7, 2001 to a high of $49.50 or March 8, 2001.

107. On March 29, 2001, Defendants filed with the SEC Tellabs' 10-K for the fiscal year ended December 29, 2000, which was signed by, among others, Defendants Birck, Notebaert, Ryan, and Jackman. In the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," Defendants falsely represented:

> 2000 Highlights
>
> *The Company achieved record levels in sales ($3,387.4 million), net earnings ($730.8 million) and earnings per share ($1.75) –putting it on track to meet its objective of $6 billion in annual revenues by the year 2003.*

* * *

Results of Operations 2000 vs. 1999

Sales for 2000 totaled $3,328.6 million, an increase of 43.3% over 1999 sales of $2,322.4 million. *The growth in overall sales was primarily attributable to increased sales of optical networking products.* Sales of optical networking products were $2,107.9 million in 2000, a 54.1% increase compared to $1,367.5 million in 1999. *The growth in optical networking product sales was a result of continued strong demand for the Company's TITAN 5500/5500S and TITAN 532L digital cross-connect systems.*

Tellabs views next-generation switching as a future growth area for the Company. *Leading that growth will be the Company's SALIX 7000 family of next-generation switching products. . . .*

* * *

Outlook

Tellabs expects continued strong sales growth in 2001. Sales growth within the United States will continue to be driven by optical networking product sales. . . . From a product standpoint, the Company expects that the TITAN 6500 MTS and TITAN 6100 OTS will contribute to overall sales growth in 2001. . . .

(Emphasis added.)

108. Tellabs' 2000 Form 10-K also favorably discussed its SALIX technology:

In February 2000 the Company acquired SALIX Technologies, Inc., strengthening the Company's ability to deliver next-generation converged network solutions. The SALIX 7000 family of next-generation switches features cost-effective voice to data network migration

by integrating circuit switching into ATM and IP broadband infrastructures. . . . The SALIX next-generation switches enable service providers to seamlessly move voice traffic onto data networks while supporting voice services. This family of switches places the Company in a high-growth market and new category, offering companies a way to rapidly create new services and increase efficiency in communications networks. A major product that was introduced in the year 2000 was the SALIX 7750 next-generation switch.

109. In addition Tellabs' 2000 Form 10-K discussed the "strong demand" for the TITAN 5500 and growth prospects for the SALIX:

Results of Operations 2000 vs. 1999

Sales for 2000 totaled $3,328.6 million, an increase of 43.3% over 1999 sales of $2,322.4 million. *The growth in overall sales was primarily attributable to increased sales of optical networking products* [the family of products that includes TITAN 5500 as its core product]. Sales of optical networking products were $2,107.9 million in 2000, a 54.1% increase compared to $1,367.5 million in 1999. *The growth in optical networking product sales was a result of continued strong demand for the Company's TITAN 5500/55005* and TITAN 532L digital cross-connect systems. During 2000, Tellabs added two new products to its optical networking products portfolio, the previously mentioned TITAN 6500 MTS, and the TITAN 6100 OTS. . . . Next-generation switching product sales fell to $191.4 million in 2000, a 28.4% decrease compared to $267.5 million in 1999. The decrease in next-generation switching product sales was primarily attributable to lower sales of the Company's digital echo cancellers. In spite of the overall decline in sales, Tellabs views next-generation switching as a future growth area for the Company. *Leading that*

> *growth will be the Company's SALIX 7000 family of next-generation switching products*, which be[gan] field trials in the fourth quarter of 2000 with a Bell operating company. [Emphasis added.]

110. Defendants' positive representations in the 2000 10-K concerning the purported success of the TITAN 5500 and the prospects for the SALIX and Defendants' expectations of strong growth, as set forth in the preceding paragraphs, were materially false and misleading for the reasons set forth in ¶¶ 74, 80, and 86 above.

111. In addition, the 2000 10-K was materially false and misleading in that Defendants failed to describe known trends and uncertainties that had, and that Defendants reasonably expected would have a material impact on net sales, revenues, and income from continuing operations, as required by Item 303 of SEC Regulation S-K.

112. a. Moreover, Defendants' recording of revenues related to fictitious orders and sales that customers never agreed to was materially false and misleading and violated GAAP. See FASB Statements of Concepts ("Concepts") No. 5, 83-84 (recognition of revenue should occur only where two fundamental conditions are satisfied: (i) the revenue has been earned; and (ii) the amount is collectible); SEC Staff Accounting Bulletin ("SAB") No. 101 (reiterating Concepts No. 5 and requiring a contractual sale arrangement).

b. Furthermore, the 2000 10-K contained a representation that the financial statements therein:

> present fairly, in all material respects, the consolidated financial position of Tellabs, Inc., and Subsidiaries at December 29, 2000 and December 31, 1999, the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2000 in conformity with accounting principles generally accepted in the United States.

Such representation was materially false and misleading for the reasons set forth in the above subparagraph.

113. On April 6, 2001, Defendants issued a press release modifying their first-quarter guidance once more, projecting first-quarter 2001 sales of $772 million compared with earlier guidance of revenues in the range of $830 million to $865 million. The press release stated in part:

> The revised guidance stems from reduced and deferred spending by major communications carriers late in the quarter. Tellabs is aggressively managing its costs and aligning its products to help carriers meet the demand for bandwidth, lower their operating costs and generate new revenue.

114. The same day, Defendants, including participants Notebaert and Ryan, held a conference call with analysts. Defendant Notebaert stated:

> *In just the last few weeks*, however, we experienced a more controlled order of flow from our larger customers than we had originally anticipated. Clearly the environment has result[ed] in near-term caution in the pace at which customers are deploying equipment. Our customers are exercising a high degree of prudence over every dollar spent. Let me balance this a bit and say that *everything we hear from the customers indicates that our in-user demand for services continues to grow*. [Emphasis added.]

115. Defendant Ryan stated:

> *As we indicated in the press release issued this morning, we see first quarter revenue of approximately $772 million, which represents a 21% year-over-year growth in overall revenue*. Full diluted earnings per share of 29 cents, which represents 12% year-over-year growth from a major product line perspective. We see revenues of

> $482 million in optical networking, which represents 22% year-over-year growth, . . . As Dick indicated, we are well positioned to manage through these challenging times. Showing 21% cap line growth in this kind of environment is a real sign of the value Tellabs brings to its customers. [Emphasis added.]

116. In response to a question about the TITAN 5500, Defendant Notebaert stated:

> We had about $83 million in TITAN 5500 business. . . . And in the last 2½ weeks or so of the quarter—the last 2 weeks of the quarter—what happened was customers called and said "look we don't want to cancel the order, we want the equipment. Could you put it into the next quarter." So we got pushed out into the next quarter, which I would tell you was surprising. . . . We don't normally have those pushed forward, especially on Titan 5500. *The good news there is the orders weren't cancelled, it was just do it after the end of the quarter.* [Emphasis added.]

117. When an analyst asked, in conjunction with the testing of the TITAN 6500, "Are we still on track to recognize that [TITAN 6500] revenue in the second quarter?" Defendant Notebaert responded: "The answer is yes." Notebaert also asserted:

> . . . the 6500 is showing strength. . . . *we should hit our full manufacturing capacity in May or June to accommodate the demand we are seeing. Everything we can build, we are building and shipping. The demand is very strong* and I don't know what else I can say about that other than it is a very bright spot for us. Looks good. [Emphasis added.]

118. An April 6, 2001 W.R. Hambrecht analyst report issued after the conference call echoed Defendant Notebaert's false explanation:

> Management blamed the shortfall on a deferral of orders for its flagship TITAN 5500 digital cross-connect late in the quarter. *More specifically, management noted that in the last two weeks, large carrier customers pushed out $83 million in orders for the 5500 to the second quarter, which would account for essentially all of the revenue shortfall.* [Emphasis added.]

119. Defendants' positive statements made in the April 6, 2001 press release and during the subsequent conference call, as set forth in the above paragraphs, were materially false and misleading for the reasons set forth in ¶¶ 74, 80 and 86 above, and for the following additional reasons, among others:

a. the projection of first quarter revenues lacked a reasonable basis and was contradicted by adverse facts known to Defendants including a severe and continuing collapse in demand for Tellabs' products.

b. contrary to Defendants' false explanation of a temporary deferral of orders, the Company's decrease in revenues was not due to recent "near term" deferred spending by communications carriers late in the quarter. Rather, as detailed above, the decrease in sales was caused by long-term decreased demand for Tellabs' products and Defendants' aggressive and improper sales and "channel stuffing" activities during fourth quarter 2000 which Defendants knew, or recklessly disregarded, would adversely affect sales of its TITAN 5500 in the future, and by the other adverse factors described herein.

120. Based on Defendants' positive representations, analysts continued to maintain the "buy" recommendations for Tellabs. For example, on April 6, 2001:

a. Salomon Smith Barney, although lowering its full-year 2001 revenue number to $3.99 billion from $4.15 billion, reiterated its "outperform" rating.

b. Lehman Brothers reiterated its "strong buy" rating, stating;

> Nonetheless, we continue to believe that end-user demand for bandwidth is the ultimate driving factor for digital cross-connect system sales, and all signs suggest this metric continues to grow. Further, we believe TITAN 5500 system pricing is holding up well. Tellabs' new product launches continue on track for revenues in the June quarter, as the company is shipping all the TITAN 6500 systems it can manufacture, with full-volume production expected in May or June.

c. Robinson-Humphrey reiterated its "buy" rating on Tellabs stock, stating that "we expect TITAN revenue and the installed base to remain robust in coming years."

d. Wit SoundView reiterated its "buy" rating, noting that "the order book still looks strong for the company's core products."

e. Baird also reiterated its "strong buy" rating, reporting that "if the $83 million in sales (for the TITAN 5500) were not deferred to future quarters, Tellabs would have easily met the previous quarterly revised estimates" and "if demand remains strong . . . it is possible that Tellabs could recover the entire amount of the deferrals in Q2 and come close to meeting original estimates for the year."

121. Less than two weeks later, on April 18, 2001, Defendants issued a press release announcing Tellabs' financial results for the first quarter ending March 31, 2001. The Company modified revenue projections for the full year from $3.99 billion to within the range of $3.6 billion to $3.7 billion, and *announced that it was exiting the SALIX product line, just 14 months after itspurchase of SALIX for $300 million.* The press release stated in part:

> In light of reduced and deferred spending by major communications carriers, Tellabs will realign its cost structure with its current expectations for lower revenue

> growth. The company will further reduce discretionary spending, eliminate salary increases this year, institute a pay-cut for all corporate officers, align manufacturing capability with demand expectations, *and terminate the SALIX next-generation-switching product effort.*
>
> * * *
>
> "These actions are unfortunate because they affect a lot of talented people," said Tellabs President and CEO Richard C. Notebaert. "By paring back our efforts in next-generation switching, we are aligning with our customers' priorities and strengthening our initiatives in high-growth areas such as optical networking. Despite the current challenges, *I am as confident as ever in Tellabs' long-term prospects and our ability to deliver strong revenue and earnings growth in the future.*"

(Emphasis added.)

122. Defendants' representations and projections concerning the Company's prospects and 2001 revenues, as set forth in the preceding paragraph, were materially false and misleading and lacked a reasonable basis for the reasons set forth in ¶¶ 74, 80, 86 and 119 above.

123. Based on Defendants' continued, and unfounded, assurances regarding the Company's performance, analysts again maintained the "buy" recommendations for Tellabs. For example, on April 18, 2001:

a. Morgan Stanley reiterated its "outperform" rating on Tellabs, noting that the Company's sales "increased to $772 million (consistent with recently revised guidance), up 21% year over year from $640 million in 1Q00."

b. Lehman Brothers reiterated its "strong buy" rating on the Company stating:

> Looking at product specific forecasts, we are forecasting combined sales for the TITAN 6500 and 6100 system of

> $175 million in 2001 and $340 million in 2000, and continue to expect initial sales of both in the second quarter with a stronger revenues ramp for the 6500 than for the 6100. Our new estimates also project TITAN 5500 sales of $1.95 billion 2001 and $2.145 billion in 2002.

c. Robinson-Humphrey reiterated its "buy" rating, noting that "optical networking (TITAN) revenue was up 22% year-over-year to $482 million, with strong sales of Tellabs flagship TITAN 5500."

d. Baird maintained its "strong buy" rating, stating that "Tellabs forecasts for the remainder of the year includes sequential improvement in the 5500 as well as contribution from the new 6000 series."

124. On May 8, 2001, Defendants filed with the SEC Tellabs' Form 10-Q for the quarterly period ended March 30, 2001, which stated in part:

> Tellabs achieved record first quarter 2001 sales of $772.1 million, 22.3% higher than last year's restated first quarter results. This marks the 39th consecutive quarter in which sales for the current quarter surpassed prior-year levels.
>
> * * *
>
> The 12.4% growth in product sales resulted from higher optical networking product sales, which continued to be driven by sales of the Company's TITAN® 5500/5500S and TITAN 532L systems. Sales of optical networking products totaled $481.6 million compared to $393.4 million in the first quarter of 2000.

125. The positive statements in the 10-Q concerning the TITAN 5500 and the Company's performance, as set forth in the preceding paragraph, were materially false and misleading for the reasons set forth in ¶¶ 74, 80, 86 and 119 above.

126. The 10-Q also was materially false and misleading in that Defendants failed to disclose known trends and uncertainties that had, and that Defendants reasonably expected would have a material impact on net sales, revenues, and income from continuing operations, as required by Item 303 of SEC Regulation S-K.

127. Defendants' baseless reassurances were successful in that Tellabs stock rose from a low of $31.90 per share on April 9, 2001 to a high of $38.24 per share on May 10, 2001.

128. Subsequently, on May 31, 2001, Tellabs issued a press release announcing that it would be taking $262 million in restructuring charges in the second quarter of 2001. According to the press release, the charges consisted of the following:

> $93 million related to Tellabs' exit from the SALIX next-generation switching business, including a $34 million inventory write-off. The remainder stems from facility closures and related fixed assets, excess purchase commitments, as well as employee-related costs from a workforce reduction.
>
> $40 million for consolidation of other excess facilities, employee-related costs and fixed-asset charges that are designed to align Tellabs' resources with demand.
>
> $129 million in other inventory-related charges, which includes a $46 million reserve for excess purchase commitments. The bulk of the inventory-related charge is for CABLESPAN products, and relates to recently reduced demand and residential service unit inventory that will be superceded by new, upgraded units later this year. The balance covers excess raw materials inventory and excess purchase commitments for other products.

129. Then, on June 5, 2001, Defendants issued a press release announcing that Tellabs was introducing an enhanced

software package for the TITAN 6500 to facilitate international communications. The press release stated in part:

> "Tellabs is enhancing our broadband networking systems to help service providers capitalize on the global business opportunities of today and tomorrow," said Robert Pullen, senior vice president and general manager of Tellabs' Optical Networking Group. *"Our TITAN 6500 system is the industry's only carrier-class transport system that uses the most innovative cell-based switching fabric with electrical and optical capabilities for converged services."*

130. The representation concerning the TITAN 6500, as set forth in the preceding paragraph, was materially false and misleading for the reasons set forth in ¶ 74 above.

THE TRUTH EMERGES

131. After the close of trading on June 19, 2001, the last day of the Class Period, Tellabs issued a press release announcing substantially revised second quarter guidance, dramatically reducing projected revenues *from the $780 million to $820 million range to $500 million, and projected earnings per share from $.29 to breakeven (before restructuring and other charges).* Tellabs provided the following explanation:

> The dramatic changes affecting the landscape of the telecommunications marketplace have continued to impact Tellabs. Service providers are temporarily able to meet increased customer demand for bandwidth by reallocating capacity within their networks and are only buying equipment to meet the immediate needs of their customers. "While we continue to see caution from our customers in the pace of equipment deployment, our market position remains intact, and we are focused on ensuring the most profitable path through the current environment," said Tellabs President and CEO Richard

> C. Notebaert. "I remain confident that Tellabs has the right people, products and strategies to meet the needs of our customers and deliver future growth."

132. At a conference call with analysts following the news release, Defendants, including conference participants Notebaert, Ryan, and Jackman, finally admitted that Tellabs' severe revenue shortfall was due almost entirely to a massive reduction in optical networking sales (*i.e.*, the TITAN 5500 series). Ryan admitted that Tellabs expected to realize "only about $210 million in optical networking revenues" in the second quarter, and characterized this as a "material shift in revenue mix across our product group."

133. On "The Bloomberg Forum," the same day, Tellabs' Notebaert also admitted that, with regard to customers, Tellabs was seeing a decline "across the board," and that the steepest drop off in revenue related to the TITAN 5500.

134. A June 20, 2001 report by W.R. Hambrecht explained:

> Tellabs indicated no real change in demand for high-bandwidth end-user services at its carrier customers, an assertion supported by yesterday's commentary by Qwest and first quarter major carrier results in general. *This suggests a more product-specific dynamic at work, with carriers working off excess TITAN 5500 inventories and not orderingproducts so far in advance.* [Emphasis added.]

135. In response to the Company's announcement, Tellabs common stock fell from a closing price of $21.20 per share on June 19, 2001 to a closing price on June 20, 2001 of $16.04 per share—a one-day decline of more than 24% per share (a $5.16 per share loss). The decline from the Class Period high of $67.125 (on February 5, 2001) to the June 20, 2001 low of $15.87 per share was more than 75%.

136. As noted in a June 19, 2001 article titled "Tellabs Plays Mini-Nortel with Steep Shortfall" appearing in The Street.com: "While it was not a total surprise on Wall Street that Tellabs was having a bad quarter, the size of its shortfall came as a big shock. 'Mind-numbing,' as one New York hedge fund manager put it."

137. The extraordinary loss per share was the greatest percentage decline in the history of Tellabs stock. Trading volume on June 20, 2001 in reaction to Defendants' June 19, 2001 announcement was an extraordinary 35,992,300 shares —the largest volume during or since the Class Period, and five times the average daily volume during the Class Period.

138. In stark contrast to the more than 24% decline in the trading price of Tellabs shares from June 19 to June 20, the S&P 500 *rose* 1% and the NASDAQ (where Tellabs shares trade) *rose* 2% over the same one-day period. The decline in Tellabs' share price was 24 times the mere 1% negative movement in the industry during the same one-day period (based on the movement of the Dow Jones Communications Technology Group, or "DJUSCT," which Tellabs identifies as its peer group in its proxy statements). Moreover, over the one-month period following the Class Period (June 19 - July 19, 2001) Tellabs shares *fell* more than 24% ($21.20 to $16.07) while the DJUSCT peer group index *rose* 8%. Over the two-month period from May 21, 2001 to July 19, 2001, Tellabs' stock price fell more than 61% (from $41.97 to $16.07) while the DJUSCT peer group index fell only 26%.

139. The price of Tellabs stock has never recovered. By September 28, 2001, Tellabs' share price fell to just $9.88. During the more than two years since the end of the Class Period, Tellabs shares have continued to trade below $20.

140. On August 22, 2001, Tellabs announced that it was reducing its workforce by 1,000 employees (a 12% reduction), closing two facilities, and further cutting operating expenses.

141. Ultimately, Tellabs admitted that Defendants were well aware that customer demand fell by at least *early* 2001. Birck and Notebaert's letter to shareholders in Tellabs' 2001 Annual Report, dated January 22, 2002, stated:

> *Early in 2001, as our customers reduced capital spending and expressed caution about the future, Tellabs began a deep process of self-examination.* We faced difficult decisions, the most onerous being our need to match capacity and expenses with demand to preserve profitability. [Emphasis added.]
>
> Making a company smaller is painful. In April 2001 we began a series of layoffs, a process that continues through March 2002, reducing our worldwide workforce by about 27% to around 6,700 people. We closed manufacturing plants in Ireland and Texas, consolidated product development and other functions from 30 facilities into 20, and cut expenses dramatically.

142. For the second quarter ended June 29, 2001, Tellabs ultimately reported net sales attributable to products of only $407,701,000 and a net *loss* of $174,702,000 as compared to net sales attributable to products of $716,596,000 and net earnings of $157,128,000 during the second quarter of 2000—a drop of more than 43% in net sales attributable to products and more than 211% in net earnings. For the six months ended June 29, 2001, Tellabs reported net sales attributable to products of $1,075,088,000 and a net *loss* of $52,195,000 as compared to net sales attributable to products of $1,310,597,000 and net earnings of $248,478,000 for the first half of 2000—a drop of about 18% in net sales attributable to products and more than 120% in net earnings. For the full year 2001, Tellabs reported net sales of $2,199,700,000 and a net *loss* of $182,000,000 as compared to net sales of $3,387,400,000 and net earnings of $730,800,000 for 2000—a decline of more than 35% in net

sales and about 125% in net earnings. Tellabs also reported a net *loss* of $313,100,000 for 2002.

143. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about Tellabs' business, operations, performance, products, and prospects, as detailed herein. These material misstatements and omissions had the effect of creating in the market an unrealistically positive assessment of Tellabs and its prospects and operations, thus causing the Company's common stock to be overvalued and artificially inflated during the Class Period. Plaintiffs and other members of the Class purchased Tellabs common stock relying upon the integrity of the market price of Tellabs common stock and market information relating to Tellabs, as well as reliance presumed by a material omission, and have been damaged thereby.

INSIDER TRADING

144. Individual Defendants and other Tellabs insiders benefited personally and directly from the artificial inflation of Tellabs stock by selling a total of almost 150,000 shares of Tellabs stock from their personal holdings for proceeds of more than $8,000,000, as set forth below:

Defendant Birck made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceed
02/01/2001	25,000	$64.25	$1,606,250.00
02/02/2001	25,000	$65.00	$1,625,000.00
02/05/2001	25,000	$65.00	$1,625,000.00
02/06/2001	5,000	$65.3775	$326,887.50
Totals	80,000		$5,183,137.50

Defendant Kohler made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds	Cost of Exercising Options to Purchase	Net Profit
02/02/2001	7,500	$64.6625	$484,968.75		
Totals	7,500		$484,968.75	$18,750.00	$466,218.75

Defendant Kozik made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds	Cost of Exercising Options to Purchase	Net Profit
02/15/2001	3,220	$58.3125	$187,766.25		
Totals	3,220		$187,766.25	$19,983.00	$167,783.25

J. Thomas Gruenwald, Senior Vice President and General Manager - Broadband Access Group, made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds	Cost of Exercising Options to Purchase	Net Profit
01/31/2001	1,500	$62.1875	$93,281.25		
Totals	1,500		$93,281.25	$12,563.00	$80,718.25

William F. Souders, a Director, made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds	Cost of Exercising Options to Purchase	Net Profit
04/20/2001	7,450	$35.01	$260,824.50		
04/20/2001	8,550	$35.00	$299,250.00		
Totals	16,000		$560,074.50	$331,500.00	$228,574.50

Peter A. Guglielmi, a Director, made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds	Cost of Exercising Options to Purchase	Net Profit
05/03/2001	5,000	$39.10	$195,500.00		
05/03/2001	5,000	$39.15	$195,750.00		
05/03/2001	5,000	$39.50	$197,500.00		
05/03/2001	5,000	$39.80	$199,000.00		
05/03/2001	10,000	$39.00	$390,000.00		
05/03/2001	10,000	$39.30	$393,000.00		
Totals	40,000		$1,570,750.00	$30,628.00	$1,540,122.00

GRAND TOTALS	148,220		$8,079,978.25

145. Individual Defendants' and other insiders' sales of Tellabs shares were highly suspicious and unusual in that, among other things:

a. The amounts of the sales were massive, both in dollar terms and in terms of the numbers of shares sold;

b. The timing of the sales by different insiders was coordinated. Over one approximately two-week period during the Class Period, which coincided with the Class Period high, at least four insiders (insider Gruenwald, and Individual Defendants Birck, Kohler, and Kozik) sold a total of 92,220 shares for proceeds of $5,949,153.75. Over another two-week period, two other insiders (Souders and Guglielmi) sold a total of 56,000 shares for proceeds of $2,030,825;

c. None of the above insiders *purchased* any shares of Tellabs stock during the Class Period (other than, in certain cases, as indicated above, exercising options to purchase shares, at prices substantially below the market price, that were then immediately sold for a substantial profit);

d. During the six months before and after the Class Period, four of the six insiders referred to above did not sell any shares of Tellabs stock;

e. The insiders' sales occurred within days of Defendants' public statements complained of herein, as detailed above.

146. By reason of their sales of Tellabs stock during the Class Period, as set forth above, while in possession of non-public material adverse information concerning the Company, Defendants had a duty to make full disclosure of such information.

SCIENTER ALLEGATIONS

147. Defendants acted with scienter in that Defendants knew or recklessly disregarded that they issued or disseminated or acquiesced in the issuance or dissemination of public

documents and statements that were materially false and misleading, as set forth herein. The Individual Defendants, by virtue of their receipt of information reflecting the truth regarding Tellabs, their control over and receipt of Tellabs' materially false and misleading misstatements, and their associations with the Company which made them privy to confidential proprietary information concerning the Company, were active, culpable, and primary participants in the fraudulent scheme alleged herein. The Individual Defendants knew or recklessly disregarded the materially false and misleading nature of the information they caused to be disseminated to the investing public.

148. Defendants also knew or recklessly disregarded that the misleading statements and omissions complained of herein would adversely affect the integrity of the market for the Company's common stock and would cause the price of the Company's common stock to be artificially inflated. Defendants acted knowingly or in such a reckless manner as to constitute a fraud and deceit upon Plaintiffs and other members of the Class.

149. In addition to the foregoing and other facts alleged herein, the following facts provide compelling evidence that Defendants acted with actual knowledge, or, at the very least, with extreme recklessness.

150. Defendants had a powerful motive to inflate the price of Tellabs' stock. As detailed above, Individual Defendants, and other Tellabs insiders, benefited personally from the artificial inflation of Tellabs stock by selling a total of approximately 150,000 shares of Tellabs stock from their personal holdings for proceeds of over $8 million. As detailed above, these sales were highly suspicious and unusual, and were timed to take maximum advantage of Defendants' false and misleading statements about Tellabs' business, performance, products, and prospects.

151. Defendants had the opportunity to commit the fraud alleged. As the top officers and directors of Tellabs, the Individual Defendants controlled the dissemination of, and could thereby falsify, information about Tellabs' business, performance, products, and prospects that reached the investing public and affected the price of Tellabs stock. The Individual Defendants controlled the content of Tellabs' press releases, corporate reports, SEC filings, and other public statements, which were created, reviewed, and approved by them.

152. The Individual Defendants were senior executive officers and directors of Tellabs and were intimately involved with and had direct responsibility with respect to important issues affecting the Company's business, operations, products, performance, and prospects.

153. Defendants were kept informed on an ongoing basis by a variety of means, including reports, meetings, and participation in discussions with respect to the serious problems affecting the Company's business, products, performance, and prospects. For example:

a. According to Confidential Sources, including CS-9, CS-15, and CS-24, top Tellabs executives, including Defendants Birck and Notebaert, conducted or were otherwise present at monthly "town hall" meetings of Company employees during the Class Period to discuss the Company's business and performance, including a meeting in or about late April 2001 at Tellabs' Lisle office attended by approximately 50 to 100 employees at which, among other things, Notebaert commented that the SALIX technology was not current and was superceded by other technologies. According to CS-15, Defendant Ryan made quarterly presentations with respect to Tellabs' financial position at the "town hall" meetings.

b. Tellabs' executives gathered and reviewed Tellabs' business at monthly and quarterly meetings at Tellabs' Illinois headquarters, according to CS-19. At those meetings, the executives reviewed all aspects of the business, including finance, operations, and sales. CS-20 also confirmed that Tellabs' executives had frequent meetings to address the Company's tactical and strategic issues.

c. In early February 2001, Defendant Notebaert attended a meeting with approximately 24 SALIX and Tellabs employees regarding the SALIX product line, according to CS-7.

d. Tellabs' finance department prepared quarterly status reports concerning the profitability of Tellabs' products, according to CS-17. People who had access to the Tellabs' database system—SAP Business Warehouse—could obtain copies of the reports, according to CS-17. CS-17 also revealed that these reports showed a decline in customer demand for the TITAN 5500 by March 2001.

e. As related by CS-20, Tellabs executives had computer access to *daily* reports concerning Tellabs' daily product bookings and revenue, through Tellabs' financial system. According to CS-20, Defendant Kohler, looked at these reports, and Defendant Jackman also reviewed these reports on approximately a weekly basis.

f. According to CS-7, Tellabs management viewed weekly and monthly reports concerning a variety of issues, *including the status of product development.* As CS-7, a former Tellabs sales director, further related, Tellabs' sales personnel wrote up weekly sales projection reports, weekly reports on field trials, and customer maintenance reports, which updated trial status.

g. According to CS-21, a sales director, Defendant Notebaert and other Tellabs' executives had telephone calls every day and stayed on top of everything. In addition,

according to CS-21, the top executives had weekly revenue calls, after which the Senior Vice Presidents would have a discussion with Defendant Notebaert. The same source explained that the revenue calls happened early in the morning, lasted about an hour, and primarily concerned how Tellabs would "make its numbers."

154. According to CS-15, a Tellabs business development manager, Notebaert and Birck and other Tellabs executives had direct knowledge of Tellabs' business activities and customer relationships. According to CS-15, Notebaert and Birck had their "hands on the pulse of everything" that happened at Tellabs. They worked very closely with the sales teams and other personnel. They spent a great deal of time of the telephone and in lots of meetings with Tellabs' sales teams. Birck and Notebaert knew the status of each product, how it was working, if the product was selling, and to whom from speaking with sales people; from "town hall" meetings at 7:30 and 9:30 in the morning at which the entire Company heard presentations as to what was going on with different products; and from briefings from sales people as to what the customers wanted and were buying.

155. CS-24 noted that Tellabs' executives and directors were "hands on" and knew everything, including the product development cycles, everyday happenings of the Company, and customer expectations.

156. CS-6, a former Tellabs senior business manager, reported that Tellabs' executives approved the TITAN 5500 / SBC channel stuffing; that Defendant Notebaert worked directly with Tellabs' sales personnel on SBC channel stuffing; that Tellabs' chief financial officer, Defendant Ryan, also knew about the channel stuffing; and that Notebaert reviewed the SALIX product line and obtained data from different sources within the Company as to the progress of the SALIX product, and made the decision to kill the SALIX product. High-level former Tellabs sales executive CS-3 also

confirmed that senior management, including Notebaert, unquestionably knew about the channel stuffing activity relating to the TITAN 5500, and that senior management, including Notebaert, pushed and prodded the Company's sales personnel.

157. As CS-16 reported, prior to Notebaert's appointment as Tellabs' CEO, Jackman and Birck ran the Company, and all information flowed up to them. As the head of Tellabs' "Product House," it was Jackman's responsibility to know what the market was doing so that he could invest in the right products to meet the market. According to CS-24, Defendant Ryan had direct knowledge of Tellabs' financial activities.

158. According to CS-19, a high-level Tellabs sales executive, Kohler was a sales-oriented person, and Jackman ran the whole product side of Tellabs' business. Jackman reported directly to Birck.

159. In addition, according to CS-1, senior management, including Defendant Robert Pullen, was aware of the TITAN 6500 production problems and that the product was failing evaluations. Moreover, as CS-1 reported, Pullen made numerous visits to TITAN 6500 customers regarding such failed evaluation problems.

160. The products at issue in this action, especially the TITAN 5500, were critical to the Company's overall performance and prospects during the relevant time. For example, the Company's 2000 10-K described the TITAN 5500 as the Company's "flagship" product, and the 2000 Annual Report identified the TITAN 5500 systems as the Company's "core products."

161. The customers at issue in this action, including Verizon and SBC, were critical to the Company's business. For example, in 2000, sales to Verizon, Tellabs' largest customer, accounted for more than 19% of consolidated net sales. No other customer accounted for more than 10% of

consolidated net sales that year. The importance of Tellabs' relationships with such key customers as Verizon and SBC compels a strong inference that, as the top executive officers and directors of Tellabs, Defendants knew about significant problems and other matters affecting those relationships.

162. The transactions that are described herein were in dollar terms large and were highly important to the Company's performance and prospects.

163. The problems affecting the Company's products and performance were of such a nature and severity, as specified above, as to compel an inference of knowledge on the part of Defendants.

164. During the Class Period, Defendants had direct communications with Tellabs' customers. For example, according to CS-15, Defendant Kohler was one of the Tellabs executives who frequently attended quarterly meetings with senior level people at Verizon, AT&T, and other Tellabs' customers. As a result of such meetings, CS 15 reported, Tellabs management knew how much the customer was buying, how much the customer planned to buy, and whether the customer was going to cut pricing.

165. CS-18, a former high-level SALIX / Tellabs executive, reported that Kohler knew of the problems with the SALIX and visited SALIX customer Level 3 at Level 3's Colorado site. CS-18 also reported that Kohler was knowledgeable concerning the progress of the SALIX because Kohler had to purchase materials for the product.

166. CS-11, a Tellabs regional sales director, confirmed that Notebaert had knowledge of the sales problems.

167. CS-16, a former Tellabs marketing strategy executive, reported that Tellabs did extensive market research, and had a budget for market research of approximately $400,000 to $500,000 per annum through the beginning of the Class

Period. This included $100,000 paid to an independent research firm for the data on T1 circuits in early 2001 that indicated that Tellabs' TITAN 5500 revenues were about to significantly decline.

168. CS-15 reported that Tellabs management needed to keep apprised of, and did keep apprised of, customer purchases and buying plans so that Tellabs and its customers could comply with federal regulations and Federal Communications Commission supplier diversity requirements. Quarterly reports described exactly what customers purchased and how much of the purchases was attributable to minority suppliers.

169. According to CS-16, the people working in Tellabs' mergers and acquisitions group would gather market data and market research, and speak with various companies in the field that were acquisition targets, and feed all this information to the head of the mergers and acquisitions group, Harvey Scull. In turn, Scull had conversations with Tellabs executive management, including Defendant Birck.

170. Defendants' knowledge was also evidenced by layoffs and Tellabs' cutting of projects. In April 2001, Tellabs began a process of laying off approximately 27% of its workforce. In addition, according to CS-9, information circulated throughout the Company in March 2001 that capital expenditures were going to be cut because sales were insufficient, and, just after the end of the Class Period, Tellabs did indeed cut all sorts of capital expense projects, including a $3 million project with which CS-9 was involved.

171. According to CS-3, the problems slowing the development of the TITAN 6500 were evident throughout the entire development process in 1998, 1999, 2000, and 2001, and thereafter. Defendants Jackman and Pullen and development personnel knew that the TITAN 6500 was not ready for deployment despite Tellabs' public announcements,

according to CS-3. As explained by CS-3, Tellabs introduced the TITAN 6500, prior to its being ready, in 2000; however, customers realized that the TITAN 6500 "was not even close to being ready" when they put the TITAN 6500 in their labs. According to CS-3, Notebaert also knew about this problem.

172. In the Company's 2001 Annual Report, Defendants effectively admitted that, by early 2001, they knew of the serious customer demand problems adversely affecting the Company's prospects. The Annual Report states: "Early in 2001, as our customers reduced capital spending and expressed caution about the future, Tellabs began a deep process of self-examination."

PLAINTIFFS' CLASS ACTION ALLEGATIONS

173. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of all persons who purchased shares of Tellabs common stock during the Class Period (the "Class") and who were damaged thereby. Plaintiffs Broholm, LeBrun, Leehey, and Morris, also bring the claims asserted herein pursuant to Section 20A of the Exchange Act on behalf of the following subclasses:

a. Plaintiffs LeBrun and Leehey bring the claims asserted herein pursuant to Section 20A of the Exchange Act on behalf of a subclass ("LeBrun-Leehey Subclass") consisting of all Class members who purchased Tellabs common stock contemporaneously with sales of Tellabs common stock by Defendants Birck and Kohler on February 2, 2001.

b. Plaintiff Broholm brings the claims asserted herein pursuant to Section 20A of the Exchange Act on behalf of a subclass ("Broholm Subclass") consisting of all Class members who purchased Tellabs common stock contemporaneously with sales of Tellabs common stock by Defendant Birck on February 5, 2001.

c. Plaintiff Morris brings the claims asserted herein pursuant to Section 20A of the Exchange Act on behalf of a subclass ("Morris Subclass") consisting of all Class members who purchased Tellabs common stock contemporaneously with sales of Tellabs common stock by Defendant Birck on February 6, 2001.

174. Excluded from the Class are Defendants; the subsidiaries and affiliates of the Company; the officers and directors of the Company and its subsidiaries and affiliates; members of the immediate families of the Individual Defendants; the legal representatives, heirs, successors, or assigns of any excluded person; and any entity in which any excluded person has or had a controlling interest.

175. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, Plaintiffs believe that there are thousands of members in the proposed Class. Throughout the Class Period, Tellabs common shares were actively traded on the NASDAQ National Market and there were approximately 188 million shares of Tellabs common stock issued and outstanding. Members of the Class may be identified from records maintained by Tellabs or its transfer agent, and may be notified of the pendency of this action by mail and publication, using forms of notice similar to those customarily used in securities class actions.

176. Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal securities laws complained of herein.

177. Plaintiffs will fairly and adequately protect the interests of the members of the Class. Plaintiffs do not have any interests that conflict with the interests of other Class

Members and have retained counsel competent and experienced in class actions and securities litigation.

178. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual Class members. Among the questions of law and fact common to the Class are:

a. whether the federal securities laws were violated by Defendants' acts and omissions as alleged herein;

b. whether Defendants participated in and pursued the common course of conduct complained of herein;

c. whether statements made by Defendants to the investing public during the Class Period misrepresented and/or omitted to disclose material facts about the Company;

d. whether the market price for Tellabs common stock during the Class Period was artificially inflated due to the material misrepresentations and failures to correct the material misrepresentations complained of herein; and

e. whether the members of the Class have sustained damages and the proper measure of damages.

179. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy because joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it virtually impossible for many members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD-ON-THE-MARKET DOCTRINE

180. At all relevant times, the market for Tellabs common stock was an efficient market for the following reasons, among others:

- Tellabs common stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;
- As a regulated issuer, Tellabs filed periodic public reports with the SEC and the NASDAQ;
- Tellabs regularly communicated with public investors through established market communication mechanisms, including regular dissemination of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services;
- Tellabs was followed by securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace, in part, through Tellabs' dissemination. Among the brokerage firms that issued research reports on Tellabs during the Class Period were Morgan Stanley Dean Witter & Co. ("Morgan Stanley"), Lehman Brothers, Inc. ("Lehman Bros."), Merrill Lynch Capital Markets ("Merrill Lynch"), UBS Warburg, LLC ("UBS Warburg"), and W.R. Hambrecht & Co. ("W.R. Hambrecht").

181. As a result, the market for Tellabs common stock promptly digested current information regarding Tellabs from all publicly available sources and reflected such information

in Tellabs' stock price. Under these circumstances, all purchasers of Tellabs shares during the Class Period suffered similar injury through their purchase of Tellabs shares at artificially inflated prices and a presumption of reliance applies. Further, Plaintiffs are entitled to and will rely on the presumption of reliance doctrine based on the material omissions alleged herein.

NO STATUTORY SAFE HARBOR

182. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The specific statements pleaded herein are not "forward-looking statements" and were not identified as "forward-looking statements" when made. Nor was it stated with respect to any of the statements forming the basis of this Complaint that actual results "could differ materially from those projected." To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements were made, the particular speaker knew that the particular forward-looking statements was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Tellabs who knew that those statements were false when made.

TELLABS' GUIDANCE TO SECURITIES ANALYSTS AND USE OF THEM AS A CONDUIT TO PROVIDE FALSE INFORMATION TO THE SECURITIES MARKETS

183. As described herein, among other wrongful conduct, Defendants used communications with securities analysts to promote the Company and to artificially inflate the price of Tellabs common stock during the Class Period.

184. In writing their reports, these analysts relied in substantial part upon information provided by the Company, public statements and reports of the Company, information provided to them privately by the Company (including by the Individual Defendants) and assurances by the Company and the Individual Defendants that information in the analysts' reports did not materially vary from the Company's internal knowledge of its operations and prospects.

185. Defendants used their communications with analysts to assure them that their analysis and estimates of Tellabs' financial condition, performance, prospects, and business were accurate and repeatedly advised securities analysts that the Company was not adversely affected by a weakened economy and that revenues and earnings would continue to increase.

186. Prior to and during the Class Period, it was the Company's practice to have its top officers and key members of its management team communicate regularly with securities analysts to discuss, among other things, the Company's operating results and anticipated revenues and to provide detailed "guidance" to these analysts with respect to the Company's business and anticipated revenues and earnings. These communications included, but were not limited to, conference calls, meetings and analyst briefings where the Defendants discussed relevant aspects of the Company's operations and financial prospects. Additionally, Tellabs' representatives also

attended "conferences" sponsored by different organizations throughout the Class Period and sponsored "conference calls" with securities analysts and institutional investors in connection with releases of earnings announcements and other major corporate events during which they promoted the Company's stock by disseminating materially false and misleading information about the Company.

187. The Individual Defendants knew that, by participating in these regular and periodic direct communications with analysts, the Company would disseminate information to the investment community and that investors and the market would rely and act upon such information (*i.e.*, make purchases of the Company's securities). The Individual Defendants had these communications with analysts in order to cause or encourage them to issue favorable reports concerning Tellabs—which the analysts did—and Defendants used these communications to falsely present the financial condition, performance, business, and operations of Tellabs to the marketplace in an artificially and falsely favorable light in order to artificially inflate the market price for Tellabs common stock. Despite their duty to do so, the Individual Defendants failed to correct these communications of which they were the sources or which they had caused or facilitated during the Class Period.

188. The investment community, and, in turn, investors, relied and acted upon the information contained in these written analyst reports that repeatedly recommended that investors purchase Tellabs common stock. The Company and the Individual Defendants manipulated and inflated the market price of Tellabs stock by falsely presenting to analysts, through regular meetings and during both telephonic and written communications, the financial condition, earnings and revenues of the Company and by failing to disclose the true adverse facts about the Company that were known only to them.

COUNT I

VIOLATIONS OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5 AGAINST ALL DEFENDANTS

189. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

190. During the Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiffs and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of Tellabs' securities; and (iii) cause Plaintiffs and other members of the Class to purchase Tellabs' securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

191. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business that operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for Tellabs' securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued as primary participants in the wrongful and illegal conduct charged herein. The Individual Defendants also are sued as controlling persons as alleged below.

192. In addition to the duties of full disclosure imposed on Defendants as a result of their making of affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, Defendants had a duty to promptly disseminate truthful information that would be material to investors in compliance

with the integrated disclosure provisions of the SEC as embodied in SEC Regulation S-X (17 C.F.R. Sections 210.01 et seq.) and Regulation S-K (17 C.F.R. Sections 229.10 et seq.) and other SEC regulations, including accurate and truthful information with respect to the Company's operations, financial condition and earnings so that the market price of the Company's securities would be based on truthful, complete and accurate information.

193. Tellabs and the Individual Defendants, individually and in concert, directly and indirectly, by the use of the means and instrumentalities of interstate commerce and of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations, performance and prospects of Tellabs as specified herein.

194. These Defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Tellabs' value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Tellabs and its business, operations, performance, and prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Tellabs' securities during the Class Period.

195. Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Defendants' material misrepresen-

tations and omissions were done knowingly or recklessly and for the purpose and effect of concealing Tellabs' operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and misstatements of the Company's business, operations, performance, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

196. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Tellabs' securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of Tellabs' publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trade, or the absence of material adverse information that was known to or recklessly disregarded by Defendants but not disclosed in public statements by Defendants during the Class Period, Plaintiffs and the other members of the Class purchased Tellabs securities during the Class Period at artificially high prices and were damaged thereby.

197. At the time of said misrepresentations and omissions, Plaintiffs and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiffs and other members of the Class and the marketplace known of the true financial condition and business prospects of Tellabs, which were not disclosed by Defendants, Plaintiffs and other members of the Class would not have purchased their Tellabs securities, or, if they had purchased such securities during the Class Period, they would not have done so at the artificially inflated prices that they paid.

198. By virtue of the foregoing, Defendants have violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

199. As a direct and proximate result of Defendants' wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

COUNT II

VIOLATIONS OF SECTION 20(a) OF THE EXCHANGE ACT AGAINST THE INDIVIDUAL DEFENDANTS

200. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

201. The Individual Defendants acted as controlling persons of Tellabs within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue, among other things, of their high-level positions, their ownership of Company shares, and their participation in and awareness of the Company's operations and intimate knowledge of the statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements that Plaintiffs contend are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings, and other statements alleged by Plaintiffs to be materially false and misleading prior to or shortly after these statements were issued and had the ability to prevent the issuance of the statements or to cause the statements to be corrected.

202. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control and influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

203. As set forth above, Tellabs and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions each as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Tellabs' and the Individual Defendants' wrongful conduct, Plaintiffs and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

COUNT III

VIOLATIONS OF SECTION 20A OF THE EXCHANGE ACT AGAINST DEFENDANTS BIRCK AND KOHLER

204. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

205. This Claim is brought by Plaintiffs LeBrun and Leehey on behalf of the LeBrun-Leehey Subclass against Defendants Birck and Kohler. Plaintiffs LeBrun and Leehey and each of the other members of the LeBrun-Leehey Subclass purchased Tellabs common stock contemporaneously with sales of Tellabs stock by Defendants Birck and Kohler on February 2, 2001.

206. By virtue of their positions as senior insiders of Tellabs, Individual Defendants Birck and Kohler were in possession of material, non-public information about Tellabs at the time they sold their own Tellabs stock to Plaintiffs

LeBrun and Leehey and the other members of the LeBrun-Leehey Subclass at artificially inflated prices.

207. By virtue of their participation in the scheme to defraud investors described herein, and their sales of stock while in possession of material, non-public adverse information about the Company, as detailed herein, Individual Defendants Birck and Kohler violated the Exchange Act and applicable rules and regulations thereunder.

208. Plaintiffs LeBrun and Leehey and all other members of the LeBrun-Leehey Subclass who purchased shares of Tellabs stock contemporaneously with the February 2, 2001 sales of Tellabs stock by Individual Defendants Birck and Kohler: (1) have suffered substantial damages in that they paid artificially inflated prices for Tellabs stock as a result of the violations of §§ 10(b) and 20(a) and Rule 10b-5 herein described; and (2) would not have purchased Tellabs stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements.

209. Individual Defendants Birck and Kohler are required to account for all such stock sales and to disgorge their profits and ill-gotten gains.

COUNT IV

VIOLATIONS OF SECTION 20A OF THE EXCHANGE ACT AGAINST DEFENDANT BIRCK

210. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

211. This Claim is brought by Plaintiff Broholm on behalf of the Broholm Subclass against Defendant Birck. Plaintiff Broholm and each of the other members of the Broholm Subclass purchased Tellabs common stock contemporaneously with sales of Tellabs stock by Defendant Birck on February 5, 2001.

212. By virtue of his position as a senior insider of Tellabs, Individual Defendant Birck was in possession of material, non-public information about Tellabs at the time he sold his own Tellabs stock to Plaintiff Broholm and the other members of the Broholm Subclass at artificially inflated prices.

213. By virtue of his participation in the scheme to defraud investors described herein, and his sales of stock while in possession of material, non-public adverse information about the Company, as detailed herein, Individual Defendant Birck violated the Exchange Act and applicable rules and regulations thereunder.

214. Plaintiff Broholm and all other members of the Broholm Subclass who purchased shares of Tellabs stock contemporaneously with the sales of Tellabs stock by Individual Defendant Birck: (1) have suffered substantial damages in that they paid artificially inflated prices for Tellabs stock as a result of the violations of §§ 10(b) and 20(a) and Rule 10b-5 herein described; and (2) would not have purchased Tellabs stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements.

215. Individual Defendant Birck is required to account for all such stock sales and to disgorge his profits and ill-gotten gains.

COUNT V

VIOLATIONS OF SECTION 20A OF THE EXCHANGE ACT AGAINST DEFENDANT BIRCK

216. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

217. This Claim is brought by Plaintiff Morris on behalf of the Morris Subclass against Defendant Birck. Plaintiff Morris

and each of the other members of the Morris Subclass purchased Tellabs common stock contemporaneously with sales of Tellabs stock by Defendant Birck on February 6, 2001.

218. By virtue of his position as a senior insider of Tellabs, Individual Defendant Birck was in possession of material, non-public information about Tellabs at the time he sold his own Tellabs stock to Plaintiff Morris and the other members of the Morris Subclass at artificially inflated prices.

219. By virtue of his participation in the scheme to defraud investors described herein, and his sales of stock while in possession of material, non-public adverse information about the Company, as detailed herein, Individual Defendant Birck violated the Exchange Act and applicable rules and regulations thereunder.

220. Plaintiff Morris and all other members of the Morris Subclass who purchased shares of Tellabs stock contemporaneously with the sales of Tellabs stock by Individual Defendant Birck: (1) have suffered substantial damages in that they paid artificially inflated prices for Tellabs stock as a result of the violations of §§ 10(b) and 20(a) and Rule 10b-5 herein described; and (2) would not have purchased Tellabs stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements.

221. Individual Defendant Birck is required to account for all such stock sales and to disgorge his profits and ill-gotten gains.

COUNT VI

VIOLATIONS OF SECTION 20A OF THE EXCHANGE ACT AGAINST DEFENDANT KOZIK

222. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

223. This Claim is brought by Plaintiff Heaton on behalf of the Heaton Subclass against Defendant Kozik. Plaintiff Heaton and each of the other members of the Heaton Subclass purchased Tellabs common stock contemporaneously with sales of Tellabs stock by Defendant Kozik on February 15, 2001.

224. By virtue of her position as a senior insider of Tellabs, Individual Defendant Kozik was in possession of material, non-public information about Tellabs at the time she sold her own Tellabs stock to Plaintiff Heaton and the other members of the Heaton Subclass at artificially inflated prices.

225. By virtue of his participation in the scheme to defraud investors described herein, and his sales of stock while in possession of material, non-public adverse information about the Company, as detailed herein, Individual Defendant Kozik violated the Exchange Act and applicable rules and regulations thereunder.

226. Plaintiff Heaton and all other members of the Heaton Subclass who purchased shares of Tellabs stock contemporaneously with the sales of Tellabs stock by Individual Defendant Kozik: (1) have suffered substantial damages in that they paid artificially inflated prices for Tellabs stock as a result of the violations of §§ 10(b) and 20(a) and Rule 10b-5 herein described; and (2) would not have purchased Tellabs stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements.

227. Individual Defendant Kozik is required to account for all such stock sales and to disgorge her profits and ill-gotten gains.

COUNT VII

VIOLATIONS OF SECTION 20A OF THE EXCHANGE ACT AGAINST DEFENDANT GRUENWALD

228. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

229. This Claim is brought by Plaintiff Mackay on behalf of the Mackay Subclass against Defendant Gruenwald. Plaintiff Mackay and each of the other members of the Mackay Subclass purchased Tellabs common stock contemporaneously with sales of Tellabs stock by Defendant Gruenwald on January 31, 2001.

230. By virtue of his position as a senior insider of Tellabs, Individual Defendant Gruenwald was in possession of material, non-public information about Tellabs at the time he sold his own Tellabs stock to Plaintiff Mackay and the other members of the Mackay Subclass at artificially inflated prices.

231. By virtue of his participation in the scheme to defraud investors described herein, and his sales of stock while in possession of material, non-public adverse information about the Company, as detailed herein, Individual Defendant Gruenwald violated the Exchange Act and applicable rules and regulations thereunder.

232. Plaintiff Mackay and all other members of the Mackay Subclass who purchased shares of Tellabs stock contemporaneously with the sales of Tellabs stock by this Individual Defendant: (1) have suffered substantial damages in that they paid artificially inflated prices for Tellabs stock as a result of the violations of §§ 10(b) and 20(a) and Rule 10b-5 herein described; and (2) would not have purchased Tellabs stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements.

233. Individual Defendant Greenwald is required to account for all such stock sales and to disgorge his profits and ill-gotten gains.

WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

a. Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure and certifying Plaintiffs as representatives of the Class and Sub-Classes defined herein;

b. Awarding compensatory damages in favor of Plaintiffs and other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, including, but not limited to, the Individual Defendants' insider trading, in an amount to be determined at trial, including interest thereon;

c. Awarding Plaintiffs and the Class their costs and expenses incurred in this action, including counsel fees and expert fees;

d. Awarding pre-judgment and post-judgment interest as allowed by law; and

e. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiffs hereby demand a trial by jury on all issues so triable.

Dated: July 11, 2003

By: /s/ Marvin A. Miller

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